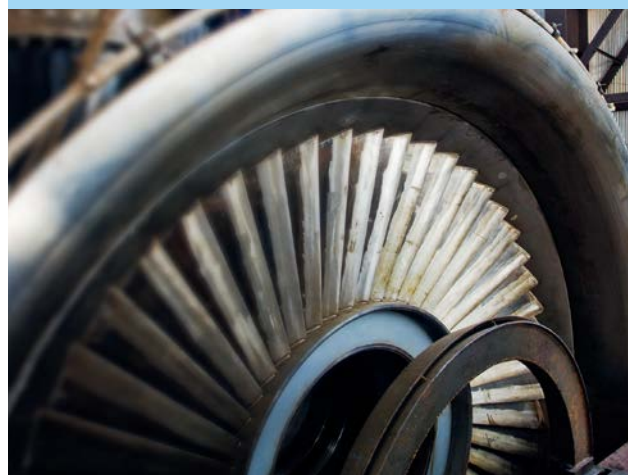
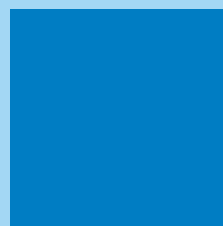




# Annual report and accounts 2015

**3i Group plc**



# Our online reporting suite

## ONLINE ANNUAL REPORT & APP

For an online version of our annual report and accounts, visit:

🔗 [reports.3igroup.com](https://reports.3igroup.com)

This report is also available as an iPad app. You can download from the App Store at:

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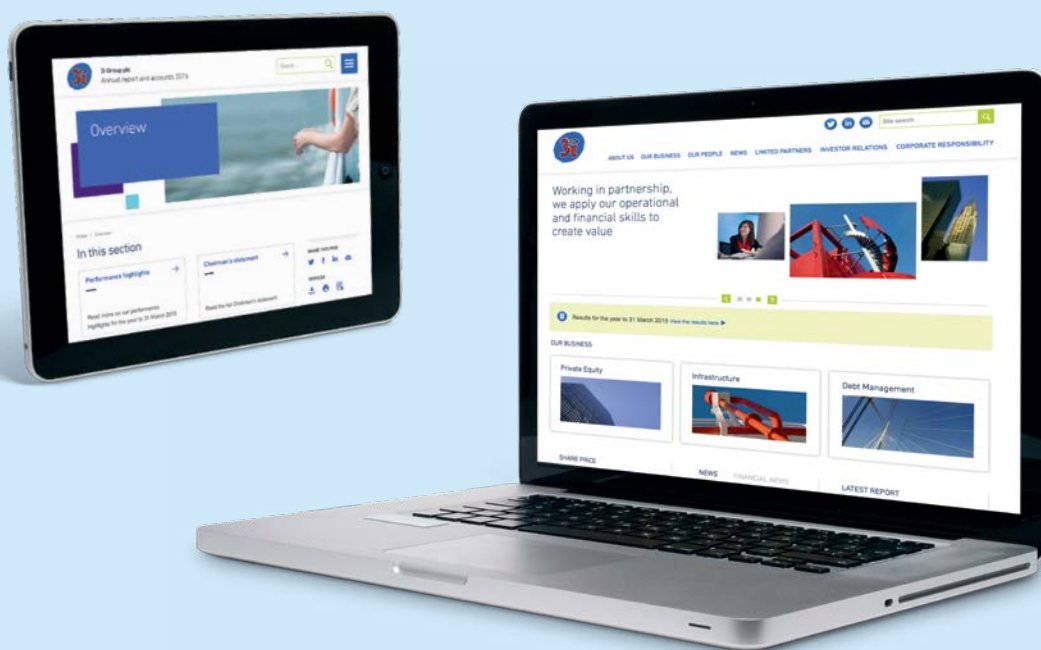
## CORPORATE WEBSITE

For more information on 3i's business, its portfolio and the latest news, please visit:

🔗 [www.3i.com](https://www.3i.com)

To be kept up-to-date with 3i's latest financial news and press releases, sign up for alerts at:

🔗 [www.3i.com/investor-relations](https://www.3i.com/investor-relations)



### Disclaimer

The Annual report and accounts have been prepared solely to provide information to shareholders. They should not be relied on by any other party or for any other purpose.

The Strategic report on pages 4 to 45, the Directors' report on pages 46 to 64, and the Directors' remuneration report on pages 72 to 81 have been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with those reports shall be subject to the limitations and restrictions provided by that law.

This Annual report may contain statements about the future, including certain statements about the future outlook for 3i Group plc and its subsidiaries ("3i"). These are not guarantees of future performance and will not be updated. Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

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**FOR DEFINITIONS OF OUR FINANCIAL TERMS, USED THROUGHOUT THIS REPORT, PLEASE SEE OUR GLOSSARY ON PAGES 147 AND 148**

The financial data presented in the Overview and Strategic report is taken from the Investment basis financial statements. The Investment basis is described on page 33 and the differences from, and the reconciliation to, the IFRS Audited financial statements are detailed on pages 33 to 37.

# Performance highlights

## FOR THE YEAR TO 31 MARCH 2015

The financial data presented in the Overview and Strategic report is taken from the Investment basis financial statements. The Investment basis is described on page 33 and the differences from, and the reconciliation to, the IFRS Audited financial statements are detailed on pages 33 to 37. The key measures of total return and NAV are equal under both bases.

### TOTAL RETURN ON EQUITY

20%

The strong performance across all three businesses generated an increase in NAV per share to 396p (2014: 348p).

### ASSETS UNDER MANAGEMENT ("AUM")

£13.5bn

AUM increased by 4% to £13.5bn (2014: £12.9bn) as the ongoing fundraising momentum in Debt Management offset the net divestment seen in Private Equity.

### OPERATING CASH PROFIT

£28m

Cash income grew by 20% to £158m, due to the 12% growth in Debt Management AUM, improved portfolio income cash generation in Private Equity and dividend proceeds from 3i Infrastructure plc ("3iN").

Demonstrating the improved operational efficiency in the business, income exceeded costs by £28m (2014: £5m).

### PRIVATE EQUITY REALISATION PROCEEDS

£831m

### CASH INVESTED

£369m

Good investment returns of 24% were driven by strong earnings growth and realisations which generated a 27% uplift over opening value (excluding refinancings).

We continued to invest selectively, focused on our core sectors and expertise, and committed £369m, of which £328m was in four new investments.

### INFRASTRUCTURE GROSS INVESTMENT RETURN

20%

### CASH INCOME

£47m

Gross investment return of £96m benefited from a total shareholder return of 25% delivered by 3iN, which was driven by the sale of Eversholt Rail and value uplifts across the Core infrastructure portfolio.

AUM growth and strong investment performance led to a 4% increase in advisory fee and dividend cash income to £47m.

### DEBT MANAGEMENT AUM RAISED

£2.4bn

### FEE INCOME

£34m

Active fundraising with six new CLOs closed, a €250m first close on our European Middle-Market Loan Fund and a further \$78m of AUM added to our US Senior Loan fund.

Fee income improved by 6% to £34m (2014: £32m) following the 12% growth in AUM.



**READ MORE**

about our financial performance in the Financial review on page 21

# Excellent progress and strong results

## CHAIRMAN'S STATEMENT

**"2015 has been another good year and 3i continues to make excellent progress against its strategic plan."**

**Sir Adrian Montague**  
Chairman



When I joined 3i in 2010, I believed that it was fundamentally a strong business which had not recovered purpose and direction since the financial crisis. The appointment of Simon Borrows as Chief Executive in 2012, and the subsequent strategic review, resulted in a clear set of objectives designed to enable 3i to generate long-term value through the economic cycle. 3i has focused back to its core sectors and geographies, underpinned by a strengthened investment process and by a disciplined approach to cost management. I am pleased to report that Simon and his management team have made excellent progress against these objectives and the 3i of today is a more resilient and high performing operation.

### PERFORMANCE

In 2015 all three businesses contributed to the good performance. Against an unstable macro-economic environment and geo-political landscape we generated strong realisations of £841 million (2014: £677 million). We added four new companies to our Private Equity portfolio with total cash invested of £369 million (2014: £276 million). With significant levels of capital searching for good investment and returns as well as the continuation of central bank measures such as quantitative easing, we have invested selectively. We have focused on companies where our sector expertise and international experience can generate enhanced returns. Our Infrastructure business performed well and our holding in 3i Infrastructure plc delivered a 25% total shareholder return, its strongest annual return since its IPO in 2007. Debt Management benefited from a very good year of fund raising in its CLO funds and, in an important diversification, launched a €250 million European Middle Market Loan fund.

### DIVIDEND

The Board has declared a total dividend of 20.0p (2014: 20.0p) for 2015. This is made up of an 8.1p base dividend and an 11.9p additional dividend, making a total of 20.0p for the year after taking into account the interim dividend paid in January 2015. Due to net divestment in the year and our robust balance sheet, we have proposed an additional dividend above the top end of our 15% – 20% distribution range, equivalent to 23% of gross realised proceeds. Subject to shareholder approval, we will pay the final dividend of 14.0p (2014: 13.3p) in July 2015.

### OUTLOOK

We remain cautious about the current environment. Many financial markets are at or near all time highs and currencies are subject to increased volatility. We are focused on enhancing the value of our existing investment portfolio as well as pursuing investment opportunities if the strategic and financial case is strong.

### BOARD CHANGES

I will be stepping down as Chairman after the AGM in June 2015. The Board has announced that Simon Thompson will succeed me as Chairman. Simon is an experienced FTSE 100 chairman and non-executive director. He joined the Board in April and will take over from me in June. It has been a great privilege to serve in the role of Chairman over the last five years as 3i has progressively recovered its poise, and I am confident that, in its 70th year, I am leaving the Group in very capable hands.

I wish 3i, its employees, investors and all of its stakeholders every success for the future.

**Sir Adrian Montague**  
Chairman

**20.0p**  
per share  
of total  
dividend



**READ MORE**  
about our  
performance  
in the financial  
review on page 21



# Strategic report

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# Delivering our strategic plan

## CHIEF EXECUTIVE'S REVIEW

**“This has been a strong year for 3i with all three of our businesses performing well. We have reshaped our business model and our shareholders are benefiting from attractive returns and dividends. We look forward with confidence.”**

**Simon Borrows**  
Chief Executive



## INTRODUCTION

We are now at the end of our three-year restructuring and have met or exceeded all of the priorities set out in our scorecard. Since 2012, we have made considerable progress by streamlining and refocusing 3i into a more resilient business capable of generating long-term value through the economic cycle. This is reflected in this year's strong performance and good progress against all of the Group's KPIs over the last three years.

This year's financial results build on the momentum established last year. 3i generated a total shareholder return of 27%, compared to 6% for the FTSE 100. All three of our businesses performed well and contributed to the Group's total return on shareholders' funds of 20% (2014: 16%) and 14% increase in NAV per share to 396p (31 March 2014: 348p). The strong performance was achieved despite significant foreign exchange headwinds, with the euro alone depreciating by 13% against sterling, reducing the NAV per share by 12 pence.

## HOW WE PERFORMED IN THE YEAR

**Private Equity** had another very successful year, generating a gross investment return of £719 million, or 24% on opening value (2014: £647 million, 24%). This reflected strong earnings growth and a flow of realisations ahead of our expectations at this time last year. Earnings growth of 19% was driven by our larger assets such as Action, Element and Basic-Fit, and a significant reduction in investments with declining earnings.

During the year, our Private Equity team generated total proceeds of £831 million (2014: £669 million) from realisations. These included £155 million returned as a result of refinancings (2014: £59 million). Favourable debt markets have allowed us to enhance capital structures and introduce higher leverage in a number of our best performing and highly cash generative assets. Despite this, average debt to EBITDA within the portfolio remained stable at 3.1x (2014: 3.1x). Proceeds from refinancings are generally returned as a repayment of shareholder loans, and do not usually generate a profit over value. Excluding refinancings, we realised profits of £144 million over opening valuation, an overall uplift of 27%, from a combination of asset sales and IPOs (2014: £190 million, 45%), including sales of Hilite at 2.1x and Vedici at 2.0x original cost.

In particular, the sustained, constructive market backdrop for realisations has meant that we have made very good progress in selling some of our smaller, more challenged investments and the number of portfolio companies has reduced to 65 at 31 March 2015 (31 March 2014: 81). The sale of Azelis, signed in February 2015 and completed in May 2015, is an excellent example of the potential for recovery, when we are able to focus on more intensive asset management. Over the last few years we have changed the Chairman and management at Azelis and agreed a new plan and financial structure which has underpinned its successful recovery and exit. We recognised £40 million of value growth in the year against an opening value of £26 million at 31 March 2014.



### ANNUAL RESULTS WEBCAST

[3i.com/investor-relations/results-reports/results-presentations](http://3i.com/investor-relations/results-reports/results-presentations)

## Chief Executive's review continued

In strong equity markets, we have also had the opportunity to IPO investments such as Eltel, Refresco and Phibro. We generated £273 million in proceeds from quoted equity sales at, or post, IPO. Strong performance from our quoted portfolio, including prior listings such as Quintiles, has meant that the Private Equity quoted portfolio generated £177 million in value growth and realised profits of 49% on the opening value.

Notwithstanding the strong overall performance, our portfolio companies are not immune to wider macro issues and we had to reduce the value of one investment materially during the course of the year. Inspecta, which had been impacted by the economic environment in Finland and Russia, declined in value by £32 million during the year. We announced the sale of Inspecta in April 2015 and expect it to complete in the first half of FY2016, with proceeds in line with our 31 March 2015 valuation.

Although we have continued to be net divestors, we have maintained the investment momentum started in FY2014. Our approach remains selective, as the availability of competing capital can quickly move prices outside our target returns. However, our sector and market expertise has continued to deliver attractive opportunities during the year. We invested in two US headquartered businesses, Q Holding and Dynatect, and a UK business, Aspen Pumps, which have ambitious plans to grow internationally. Together with our Eurofund V investors, we also invested in Christ, a German-based jewellery retailer, alongside our existing investment in Amor. During the year our portfolio companies made over 20 acquisitions, representing a combined enterprise value of over €400 million, funded almost entirely out of the companies' own finances. These acquisitions are an important part of building the strategic value of our portfolio companies, including delivering their international growth potential. In total we made cash investments of £457 million, of which £369 million was 3i's proprietary capital (2014: £372 million, £276 million).

We continue to review a wide number of opportunities, but many are not pursued if we judge that the sale price is likely to move beyond where we see value.

Our longer term hold investments now account for approximately 50% of our portfolio value, and their strong performance, together with realisations, has led to material improvement in Eurofund V and the Growth Capital Fund, with multiples of 1.4x and 1.7x of invested capital respectively (31 March 2014: 1.1x, 1.3x respectively).

**Infrastructure** had a good year as gross investment return increased to £96 million, or 20% (2014: £2 million, 0%). The European portfolio continued to perform well and the dividends and advisory fees from 3iN generated a good level of cash income for the Group.

3iN's total shareholder return was 25% in the year, following the highly successful sale of its holding in Eversholt Rail. This transaction demonstrates how competitive the environment for large European Core infrastructure investments has become, as sovereign wealth and pension funds increase their investment appetite in the face of prolonged low interest rates. The team achieved a good level of new investment for 3iN, with £114 million of total investment commitments in the year (2014: £80 million). The Infrastructure team used its expertise gained through an existing investment in Oystercatcher and its strong relationship with Oiltanking to invest £107 million in two oil storage facilities in the Netherlands and Belgium. The team also completed five PPP deals, committing a total of £37 million.

3iN has a portfolio of high quality Core infrastructure assets and this is reflected in significant increases in value in addition to Eversholt Rail. Core infrastructure accounted for 83% of 3iN's total investments at 31 March 2015.

3i has recognised £30 million of advisory and management fees (2014: £24 million) and £45 million of performance fees during the period (2014: nil). £35 million of these fees was accrued as carry payable to the investment team (2014: nil). This carry will be paid out to the team over a number of years.

The more favourable credit markets ensured that **Debt Management** had a good year of fundraising, launching six CLOs in Europe and North America and increasing AUM by 12% to £7.2 billion (31 March 2014: £6.5 billion). The team also launched a European Middle Market Loan Fund with an investment mandate that permits a wider range of investments, typically investing in smaller businesses than CLOs. In the US, our Senior Loan Fund passed the \$100 million milestone which has created more investor interest in the product. Both initiatives were important steps in diversifying the business beyond CLOs and generating additional fee income. In total, Debt Management recognised fee income of £34 million in FY2015 (2014: £32 million), as new fundraising offset the effect of the run-off of older funds.

The CLO markets are subject to increased regulatory change. Regulators in Europe have mandated that CLO managers hold a minimum amount of capital investments in their products. The US market has introduced a similar practice although the corresponding legislation does not come into force until December 2016. 3i is well placed to comply with these changes given its proprietary capital. 3i supported the development of the business and invested £79 million in new CLOs in the year (2014: £40 million). These equity investments generate a good cash yield which, together with the fee income, is an important component of our operating cash profit.



In 2012 we were operating with a substantial annual operating cash loss and, as this was diluting capital returns to investors, we set a KPI to achieve an **operating cash profit**. We undertook a significant transformation programme, focusing on recurring fee income and operational efficiencies and as a result, in FY2014, we recorded a first annual profit of £5 million. This measure improved significantly to £28 million in FY2015. All of the businesses have contributed to increased cash income with additional fundraising in Debt Management and strong portfolio income from Private Equity and Infrastructure. Operating expenses also declined in FY2015 to £131 million or 1.0% of AUM (2014: £136 million, 1.0%). These costs included £12 million relating to acquisitions made since 2012 and £1 million of restructuring costs (2014: £6 million, £9 million). To reflect increased activity levels, we have recruited to support origination in both Private Equity and Infrastructure and fundraising in Debt Management. The Group has also now launched a Graduate Programme and will welcome its first graduates in the Autumn. Looking forward, further cost efficiencies are not expected and expenses will increase marginally as the businesses continue to grow.

Maintaining the profitability of the combined **fund management** platform is a key component of operating cash profit. This measure improved in the year, as Debt Management's fundraising offset the expected decline in Private Equity fees as a result of its strong realisations. Actual fund management profit grew strongly to £26 million, with a margin of 21% (2014: £19 million, 15%). Underlying profit, after restructuring and acquisition costs, was stable at £33 million, with a margin of 26% (2014: £33 million, 26%).

Reflecting our confidence in the future growth and cash generation capacity of the business, we have announced a final dividend ahead of our established guidance. We propose to pay a total dividend for the year of 20 pence per share (2014: 20 pence per share). This results in a final dividend for 2015 of 14.0p, subject to shareholder approval.

Our financial performance is reviewed in more detail on pages 21 to 32.

## WHAT WE HAVE ACHIEVED IN THE LAST THREE YEARS

To strengthen 3i both commercially and financially, our emphasis has been on asset management, cash generation, cost control and fund management margins. We have now completed our transformation programme and our performance against our June 2012 objectives is summarised on the page overleaf and detailed below.

The six asset management initiatives were an essential part of the strategic plan as Private Equity is, and will continue to be, the biggest contributor to value growth for the Group. Since 2012 we have rebalanced the Private Equity business, selling off non-core or underperforming assets and refocusing on a smaller number of high growth middle-market companies. Over the longer term we aim to have a portfolio of fewer than 40 investments and, to date, we have made very good progress. The number of assets has reduced to 65 at 31 March 2015 (31 March 2012: 124) and 89% of assets by value are now held in our core geographies of northern Europe and North America (31 March 2012: 77%). The improvement in asset management is also producing quantifiable results. Unrealised value growth over the last three years has principally been driven by earnings which have improved to 19% in 2015 (2012: 9%). This was driven by excellent performance in our largest assets and a material reduction in smaller and non-core assets with negative earnings growth. 22% of the portfolio by value at 31 March 2012 had negative earnings growth compared to 7% at 31 March 2015. Early indications on the new investments made since 2012 are very promising.

This stronger portfolio of assets was valued at an average of 10.5x EBITDA (post discount) at 31 March 2015 compared to 14.6x EBITDA for the FTSE 250.

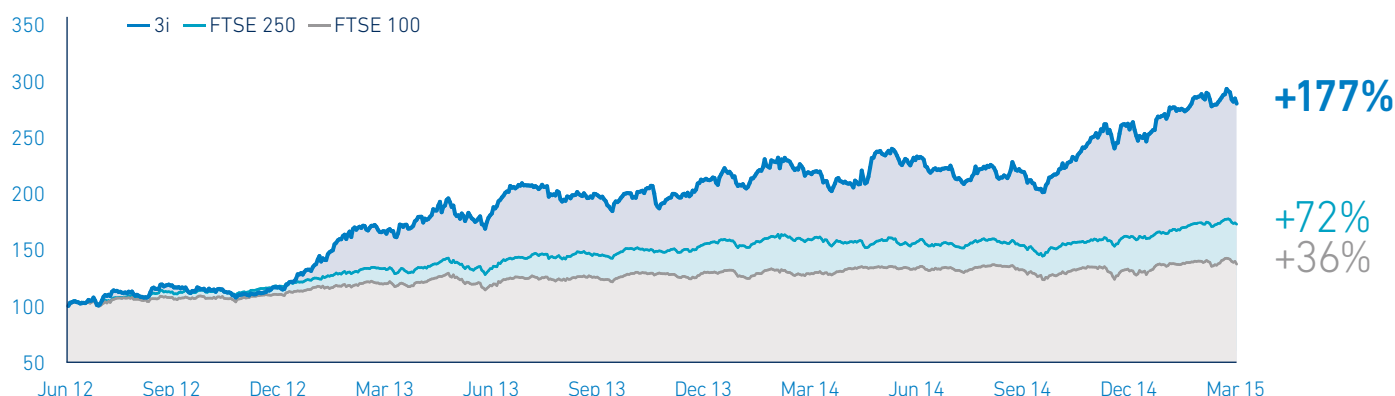
The Group's AUM has increased by 9% per annum to £13.5 billion at 31 March 2015 (31 March 2012: £10.5 billion) predominantly driven by Infrastructure and Debt Management. Infrastructure acquired a PPP platform in 2013, which is delivering deal flow to 3iN, and Debt Management expanded in the US via an acquisition in 2012. Debt Management, in particular, has successfully raised new funds in both Europe and the US in the last two years.

A critical part of our strategic plan was to reduce the operating cost base in order to use shareholders' capital for distribution or reinvestment. Against a March 2012 run-rate cost base of £185 million, we achieved savings of £70 million and reduced costs to 1.0% of AUM (2012: 1.6%). Headcount reduced by 45% to 240 at 31 March 2015, excluding acquisitions, and 276 including acquisitions (31 March 2012: 435).

## Chief Executive's review continued

The scorecard below reports on our achievements against the objectives set following the Chief Executive's strategic review as announced in June 2012.

### 3i's total shareholder return between 28 June 2012 and 31 March 2015 significantly outperformed benchmarks



### ACHIEVEMENTS AGAINST 2012 OBJECTIVES

1

**Create a leaner organisation with a cost base more closely aligned with its income**

Achieved £70m of ongoing savings by March 2015, compared to original £40m target.

Headcount reduced by 37% to 276 at 31 March 2015, including 36 from new acquisitions.

Actual costs, including acquisitions, were £131m in FY2015 (2012: £180m) representing 1.0% of AUM (2012: 1.6%).

2

**Improve consistency and discipline of investment processes and asset management approach**

Monthly dashboard monitoring of performance across the Private Equity portfolio.

Detailed exit strategy in place for every asset.

Controls in place to minimise risk of over investment at the top of the cycle.

Significant improvement in overall portfolio performance with earnings growth of 19% in FY2015 (2012: 9%).

3

**Re-focus and re-shape the Private Equity business**

Closed eight offices and refocused activity in northern Europe and North America.

Selective recruitment to support future investment activity.

Number of portfolio companies reduced from 124 at 31 March 2012 to 65 at 31 March 2015, with a particular focus on realising lower value and underperforming assets.

Eight new investments in Germany, Benelux, US and UK since 2012.

4

**Grow third-party AUM and income**

AUM up to £13.5bn (2012: £10.5bn), representing a 9% CAGR.

Platform acquisitions in US Debt Management and European Infrastructure added £2.8bn of AUM.

£3.5bn of new funds raised in last 18 months.

5

**Materially reduce gross debt and funding costs**

Gross debt of £815m at 31 March 2015 halved from £1,623m at 31 March 2012.

Gross interest costs reduced by 52% to £49m, 18% below the target of £60m (2012: £103m).

RCF refinanced and term extended to at least 2019.

Nil gearing at 31 March 2015 (2012: 18%).

In 2012 we set out a target capital allocation model to rebalance returns to our investors. Over the last three years we have generated £2,124 million of realisation proceeds, invested £766 million in new Private Equity investments, and £189 million to support Debt Management fundraising. Following the reduction of gross debt of £542 million, we initiated an enhanced shareholder distribution policy in July 2013. Including the proposed final dividend for this year, we will have returned £506 million of dividends to shareholders, whilst reaching a net cash position and maintaining a robust balance sheet to support longer term net asset growth.

At the end of our three-year restructuring, the Group has three diverse, but complementary, businesses underpinned by the expertise of our people and differentiated by our selective investment approach and disciplined focus on returns.

## OUR BUSINESS TODAY

Today 3i offers a differentiated and attractive value proposition. By combining proprietary capital investing and the management of third-party capital, our business model generates capital returns and recurring fund management income. 3i is the largest single investor in its Private Equity and Infrastructure funds and this ensures that the interests of our shareholders, our fund investors and co-investors are aligned. It also enables us to retain a material share of the "alpha-generating" returns from mid-market private equity and infrastructure investing. Recurring management fee income contributes to the financial resilience of the business and eliminates the capital dilution caused by the costs of running the business. Capital growth and regular dividends evidence our progress and provide long-term value for our shareholders.

In **Private Equity**, our strong international network of local investment teams and proven ability to develop businesses internationally allows us to build credibility with management and vendors. Our proprietary capital affords us flexibility and speed, which differentiates our competitive position.

Combining our focus on driving operational excellence within our portfolio companies and an institutional approach to the process of investment management supports our strategic objective to achieve our target of at least 2x our money invested over three to five years.

Monetary policy across the developed world has led to an abundance of equity and debt capital chasing a limited supply of investment opportunities. So the principal constraint on our activity is investment opportunity at sensible prices. We expect to invest in four to seven new investments a year and commit €500 – €750 million. But we will only do this if investments meet our demanding strategic and financial criteria. Given the strength of the Group's financial position, and the scale of potential investment, we intend to fund this activity principally from proprietary capital.

As a result, we have decided not to initiate a new third-party fundraising in the short to medium term, notwithstanding our improved performance.

The impact of central bank intervention on sovereign wealth and pension fund managers' appetite for infrastructure investing is expected to persist. Although the **Infrastructure** team is actively participating in bidding processes, our priority, as investment adviser to 3iN, is to maintain a disciplined approach to new investments. The team continues to monitor and review opportunities in adjacent markets, including new sectors and geographies. In the meantime, significant value growth in the existing portfolio is supporting 3iN's NAV appreciation and the business will continue to be an important contributor to our fund management profitability and to operating cash profit.

Our **Debt Management** business is principally a fund management platform; its calls on 3i's proprietary capital are limited to regulatory requirements and seed capital for new product development. Aided by the positive market conditions throughout FY2014 and FY2015, our US and European teams were very successful in raising new funds. We expect this general environment to persist as banks continue to actively manage their lending exposures by syndicating assets to alternative funds such as CLOs. The current appetite for yield is also supportive for our new product offerings such as the European Middle Market Loan Fund and the US Senior Loan Fund.

## OUTLOOK

3i is demonstrably a more resilient business, both commercially and financially, than it was when we started the restructuring three years ago. The focus we have placed on embedding institutional quality investment management processes throughout the businesses and our ongoing cost discipline has generated real results. We are confident that this, along with the expertise and integrity of our people, will underpin our aim to generate attractive shareholder returns through the cycle.

None of this progress would have been possible without the dedication and hard work of the 3i team. I would like to thank them for their application and good work over the period to bring 3i back to today's healthy position. I would also like to take this opportunity to thank Sir Adrian Montague, our departing Chairman. He has been a pleasure to work with over the last three years and he has revamped our Board in line with the restructuring of the Group.

We look to the future with confidence in the knowledge that there is still much more to achieve at 3i.



**Simon Borrowes**  
Chief Executive

# Our Business model

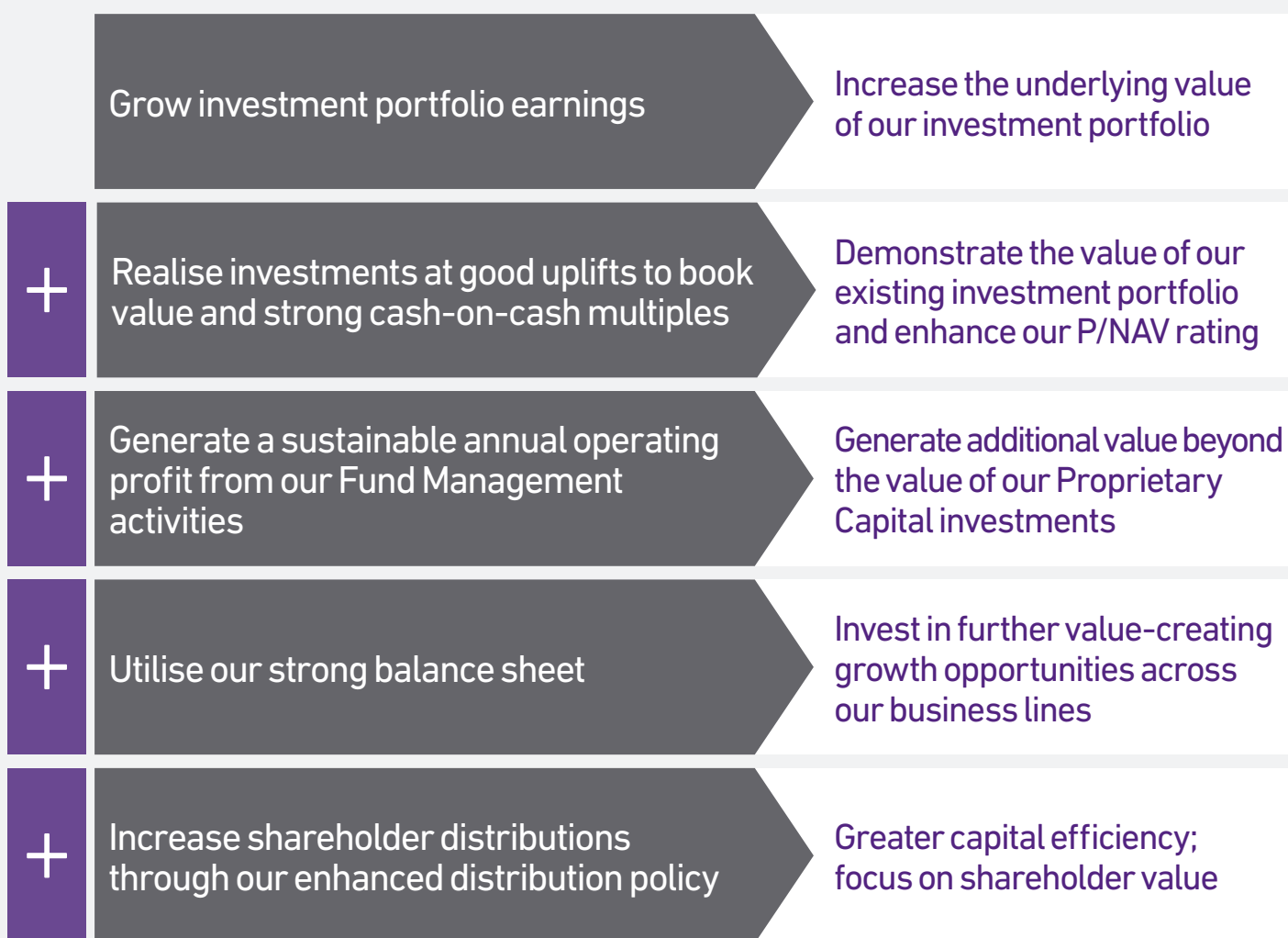
3i is a leading international investment manager focused on mid-market Private Equity, Infrastructure and Debt Management.

Our core investment markets are northern Europe and North America.

3i's sector and market expertise, combined with our proprietary and third-party capital, differentiates our investment proposition.

Our efficient institutional investment platform ensures value creation is not diluted and returns can be distributed to shareholders or reinvested in new assets.

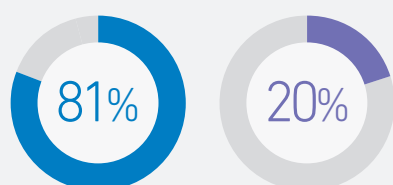
By compounding returns on reinvested capital, we are capable of generating value for our investors through the economic cycle.



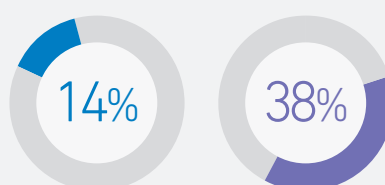
# What we do

3i's investment capability across three complementary businesses underpins its business model and strategy.

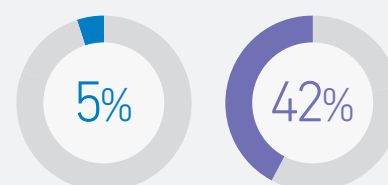
## Private Equity



## Infrastructure



## Debt Management



■ Proprietary Capital portfolio value ■ Fund Management fee income

### Expertise

- Majority investments in mid-market companies with an enterprise value of €100m–€500m at investment
- Specialist investors in Business Services, Consumer and Industrials
- Driving international growth

### Investment and return objectives

- c. €500m–€750m pa in 4–7 new investments
- Portfolio of fewer than 40 investments
- 2x Money Multiple over 3–5 years

Private Equity employs the majority of 3i's proprietary capital.

By leveraging its extensive network and sector expertise, our Private Equity business is capable of generating material investment returns from good origination, asset management and well planned exits.

### Expertise

- Focus on Core economic infrastructure, Public Private Partnerships ("PPP") and low risk energy

### Investment and return objectives

- New investment to grow 3iN
- Assess opportunities to invest or manage third-party funds in adjacent markets
- Longer term, raise new third party funds

Infrastructure is increasingly a third-party fund management business; advising 3iN on originating and investing in Core infrastructure and PPP opportunities, and managing funds focused on PPP and India.

Our returns include advisory and management fees received plus capital returns and income from our 34% stake in 3iN.

### Expertise

- Investor in senior secured loans
- Specialises in the management of CLOs and also offers alternative risk/return products

### Investment and return objectives

- Continue to grow third-party AUM and fee income through the issuance of CLOs
- Leverage platform to broaden the product offering and improve margins

Debt Management is the primary driver of our third-party fund management business, generating management and performance fee income.

We commit proprietary capital to meet regulatory requirements or support new product development. We receive capital return and portfolio income on this investment.

An efficient investment platform and capital model generating material shareholder distributions and proceeds for reinvestment.

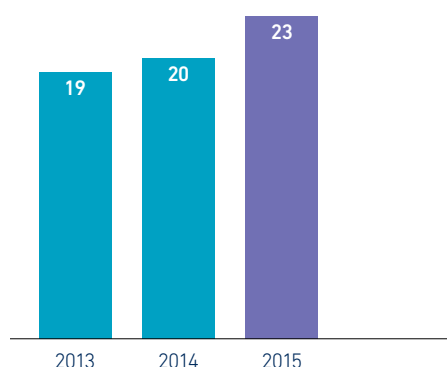


# How we performed

## KEY PERFORMANCE INDICATORS

### GROSS INVESTMENT RETURN ("GIR")

% of opening portfolio value  
Financial year



#### Rationale

GIR is how we measure the performance of proprietary investments portfolio

#### 2015 progress

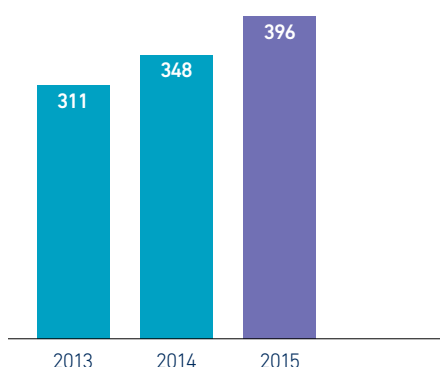
- Strong Private Equity performance demonstrates the benefits of the asset management improvement initiatives
- Good flow of Private Equity realisations delivered realised profits over opening value of £144m representing an uplift of 27% (excluding refinancings)
- Value uplifts and realisations from the European infrastructure portfolio led to a material increase in the value of 3iN
- Negative foreign exchange movements in the year of £154m on our investment portfolio

#### Key risks

- Investment rate or quality of investments is lower than expected
- Subdued M&A activity and high pricing in 3i's core markets could impact the timing of exits, cash returns and investments
- Operational underperformance of portfolio companies impacting earnings growth and valuations
- Failure to invest in people to support our activities

### NET ASSET VALUE ("NAV")

NAV per share (p)  
As at 31 March



#### Rationale

NAV is a measure of the fair value of our proprietary investments after the net costs of operating the business

#### 2015 progress

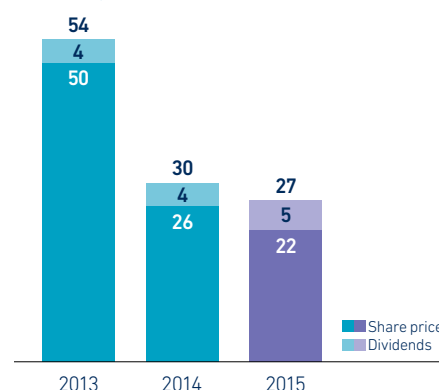
- Good progression in NAV per share to 396p, up 14% over the year
- Strong Private Equity and Infrastructure GIR, the primary contributors to 48p NAV growth
- Sterling materially strengthened against the euro in the year, offset by its weakening against the US dollar, resulting in a net translation loss of £114m on net assets in the year, which reduced NAV by 12p

#### Key risks

- G20 political and economic uncertainty affects 3i's core markets, impacts valuations and increases foreign exchange volatility
- Unplanned increase in cost base eg due to regulatory changes

### TOTAL SHAREHOLDER RETURN ("TSR")

%  
Financial year



#### Rationale

TSR measures the return to our shareholders through the change in share price and dividends paid during the period

#### 2015 progress

- TSR of 27% reflecting an increase in share price from 398p at close 28 March 2014 to 482p at close 31 March 2015, the final FY2014 dividend of 13.3p paid in July 2014 and the interim FY2015 dividend of 6.0p paid in January 2015
- Good flow of realisations and strong balance sheet resulted in proposed additional dividend of 11.9p per share for the year over base annual dividend of 8.1p per share, bringing the total for FY2015 to 20.0p per share

#### Key risks

- Lower NAV due to investment underperformance or political and economic uncertainty
- Volatility in equity markets
- The appeal of our business model
- Regulatory or legal change materially affecting one or more of the Group's businesses

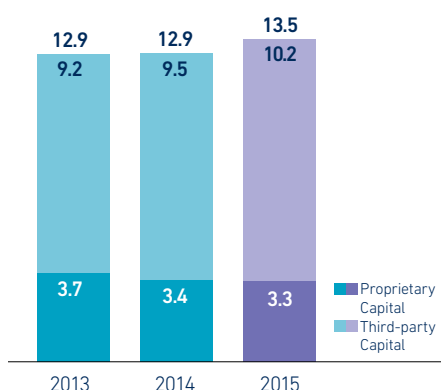
**READ MORE**

on Principal Risks, please see page 38

For further information on Executive Directors' remuneration, please see page 72

## ASSETS UNDER MANAGEMENT ("AUM")

£bn  
As at 31 March



### Rationale

AUM forms the basis on which management fee income is generated. For funds out of their reinvestment period, this is measured at residual cost

### 2015 progress

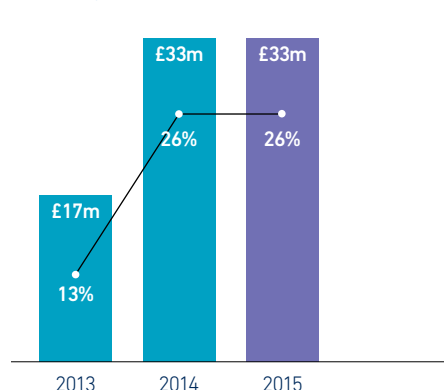
- Total AUM grew by 4% to £13.5bn
- Growth in third-party AUM to £10.2bn (75% of total AUM)
- New funds raised in the year included six new CLOs and the first close of a €250m European Middle Market Loan Fund which offset the effect of Private Equity realisations and the normal attrition in Debt Management as funds mature
- Proprietary Capital AUM stable at £3.3bn as the good flow of Private Equity realisations largely replaced with new investments

### Key risks

- Portfolio performance is weak or impacted by a legal, macroeconomic/political conditions and/or regulatory event
- Regulatory change limits 3i's ability to raise third-party capital

## UNDERLYING FUND MANAGEMENT

Profit (£m) and Margin (%)  
Financial year



### Rationale

Underlying Fund Management profit allows us to assess the performance of our Fund Management business

### 2015 progress

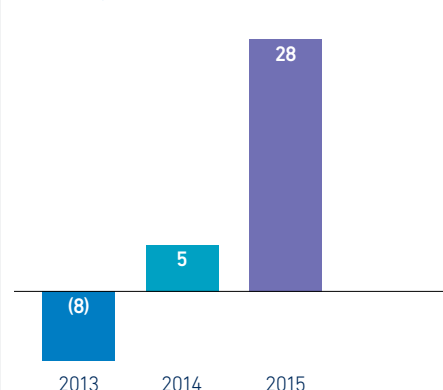
- Underlying Fund Management profit remained stable at £33m in the year, as reduced fees from Private Equity were offset by growth in fees from Debt Management and Infrastructure
- Divestment activity led to a reduction of 8% in Private Equity AUM and a reduction in total fee income (including synthetic fee) of 14%
- Infrastructure fee income increased by 25% as we recognised a full year of income from the BIFM PPP funds
- Debt Management AUM increased by 12% and fee income increased by 6%

### Key risks

- G20 political and economic uncertainty affects investment opportunity or fundraising appetite
- Adverse fluctuations in financial markets impact our fee-based businesses
- Regulatory change adds to 3i's cost base

## OPERATING CASH PROFIT/(LOSS)

£m  
Financial year



### Rationale

Covering the annual cost of running our business with the annual cash income eliminates capital return dilution

### 2015 progress

- Operating cash profit improved significantly to £28m
- Good cash income generated by the Private Equity portfolio and increased AUM in Debt Management and Infrastructure funds
- Further enhanced the Group's operational efficiency following the cost reduction programme initiated in 2012

### Key risks

- Portfolio performance, and therefore portfolio income, is weak due to operational underperformance
- Unplanned increase in cost base eg due to regulatory changes

# Business review

This business review reports on the activity of each of our businesses. Financial performance is summarised in the Chief Executive's review and reported in detail in the Financial review.

# Private Equity

## BUSINESS LINES

**“A strong performance across all aspects of the business, including £457 million of investment.”**

**Alan Giddins and Menno Antal**

Managing Partners and Co-heads of Private Equity



Private Equity is the largest contributor to the Proprietary Capital returns; accounting for 81% of the Proprietary Capital portfolio at 31 March 2015 (31 March 2014: 82%). The portfolio's performance was strong in the year; driven by growth of 19% in earnings and good realisations, through sales and IPOs as well as refinancings. The gross investment return was £719 million for the year, or 24% on the opening portfolio (2014: £647 million, 24%).

### INVESTMENT ACTIVITY

We increased the amount of investment in the year and completed four new transactions. In total £457 million was invested; including £369 million of 3i's Proprietary Capital (2014: three, £372 million, £276 million).

Each new investment demonstrates our origination and investment execution strengths. We invested in Q Holding and Dynatect, which are both leading US headquartered industrial businesses with clear strategies to accelerate their growth internationally. Our sector focus and proven experience in achieving international growth and

diversification, recently demonstrated by Mold-Masters and Hilite, were important as key differentiators against competing US private equity firms for both investments.

We also invested in Christ, a German-based jewellery retailer, and Aspen Pumps, a UK-based specialist manufacturer of condensate removal pumps. Christ was acquired through Eurofund V, alongside our investment in Amor. We had followed Christ as a potential target since late 2012. This positioned us well when the process started, allowing us to move quickly and secure the investment. Similarly, we had followed Aspen since early 2014, allowing us to develop a good understanding of the business and broader market environment as well as build relationships with management, which gave us good insight when a sales process was initiated.

In June 2014, we took the opportunity to purchase a small additional stake in Eurofund V at the 31 March 2014 NAV, adjusted for cash flows, which further increased our exposure to investments we know well.

An important part of building the strategic value of our portfolio companies, including achieving international expansion, is an active acquisition programme. Our portfolio companies made over 20 acquisitions in the year, with a combined enterprise value of over €400 million, primarily funded from the companies' own cash and banking facilities.

**81%**

of Proprietary Capital

**£719m**

gross investment return, 24% on opening portfolio value

**£457m**

Proprietary and third-party capital invested

**Table 1: Private Equity cash investment** in the year to 31 March 2015

Investment	Type	Business description	Date	Total investment £m	Proprietary capital investment £m	Proprietary capital value at 31 March 2015 £m
Christ	New <sup>1</sup>	Jewellery and watch retailer in Germany	December 2014	173	99	165
Q Holding	New	Manufacturer of specialist moulded rubber and silicone components	December 2014	102	100	109
Dynatect	New	Manufacturer of engineered, mission critical protective equipment	September 2014	66	65	71
Aspen	New	Manufacturer of condensate removal pumps	February 2015	65	64	64
EFV stake	Further	Acquisition of LP stake in Eurofund V	June 2014	27	27	n/a
Other <sup>2</sup>	Further		n/a	24	14	n/a
<b>Total</b>				<b>457</b>	<b>369</b>	

<sup>1</sup> Christ was acquired alongside Amor as a follow on investment for Eurofund V and is now recorded as a single investment "Amor/Christ". The value in the table above includes Amor.

<sup>2</sup> Other includes further investment to support the portfolio, including acquisition funding or working capital.

## Private Equity continued

## REALISATIONS ACTIVITY

Realisations, refinancings and IPOs generated £831 million of proceeds during the year. Excluding refinancings of £155 million, this represented an uplift over opening value of £144 million, or 27% (2014: £190 million, 45%). The uplift was lower than the prior year due to a number of investments being valued on an imminent sales basis at 31 March 2014. Proceeds from refinancings are usually recognised primarily as a repayment of shareholder loans with minimal uplifts as a result.

In addition to the number of notable larger exits and IPOs, we continued to sell smaller and non-core assets. At 31 March 2015, there were 65 investments in the Private Equity portfolio, down from 81 at 31 March 2014. In the longer term, we expect to hold a portfolio of fewer than 40 Private Equity investments.

Table 2 details the Private Equity realisations activity in the year.

**£831m**  
realisation  
proceeds

**Table 2: Private Equity realisations** in the year to 31 March 2015

Investment	Country	Calendar year invested	31 March 2014 value £m	3i realised proceeds £m	Profit/(loss) in the year <sup>1</sup> £m	Uplift on opening value <sup>1</sup> %	Residual value £m	Money multiple over cost <sup>2</sup>	IRR
<b>Full realisations</b>									
Hilite	Germany	2011	133	151	25	20%	–	2.1x	31%
Phibro	USA	2009	93	122	27	28%	–	1.7x	11%
Vedici	France	2010	58	83	27	48%	–	2.0x	17%
LHI	China	2008	33	40	8	25%	2	2.8x	18%
John Hardy	Hong Kong	2007	25	25	–	–%	2	1.6x	7%
Gain Capital	USA	2008	12	10	(2)	(17)%	–	0.9x	(2)%
WFCI	France	2011	–	10	10	100%	–	0.8x	(6)%
Derprocon	Spain	2000	5	7	1	17%	–	2.0x	7%
Café y Te	Spain	2006	4	6	2	50%	–	0.5x	(7)%
Other investments	n/a	n/a	–	2	2	n/a	–	n/a	n/a
<b>Partial realisations</b>									
Eltel	Nordic	2007	63	87	24	38%	47	0.9x	(1)%
Foster + Partners	UK	2007	66	66	–	–%	40	1.8x	10%
Quintiles	USA	2008	25	29	4	16%	144	3.1x	24%
Refresco	Benelux	2010	15	25	10	67%	47	1.6x	11%
Other investments	n/a	n/a	7	9	2	n/a	150	n/a	n/a
<b>Refinancings</b>									
Action	Benelux	2011	95	113	18	19%	592	7.1x	80%
Element	Benelux	2010	22	23	1	5%	145	3.0x	31%
Amor <sup>3</sup>	Germany	2010	21	19	(2)	(10)%	55	1.6x	15%
<b>Deferred consideration</b>									
Other investments	n/a	n/a	–	4	4	n/a	n/a	n/a	n/a
<b>Total</b>			<b>677</b>	<b>831</b>	<b>161</b>	<b>24%</b>	<b>1,224</b>	<b>2.0x</b>	<b>n/a</b>

<sup>1</sup> Cash proceeds in the year over opening value realised.

<sup>2</sup> Cash proceeds over cash invested. For partial realisations and refinancings, 31 March 2014 value reflects the element being disposed and valuations of any remaining investment are included in the multiple.

<sup>3</sup> Loss on disposal offset by income received.



## ASSETS UNDER MANAGEMENT

AUM declined to £3.8 billion at 31 March 2015 (31 March 2014: £4.1 billion) as a result of net divestment activity. AUM is calculated as the original cost of our managed portfolio and, while this has reduced, the value of the portfolio has increased to £4.8 billion (2014: £4.6 billion) as a result of strong value growth.

The performance of Eurofund V and the Growth Capital Fund continued to improve with money multiples at 31 March 2015 of 1.4x and 1.7x respectively (31 March 2014: 1.1x, 1.3x). The investments made in the second half of Eurofund V, post 2010, are showing a particularly

strong performance, with a money multiple of 2.6x at 31 March 2015 (31 March 2014: 2.1x).

The Group is well placed to fund the current level of activity from current resources and future realisations. Consequently we have no plans to initiate a new Private Equity fundraising in the short to medium term, notwithstanding the success of the team in improving the performance of our most recent funds.

The results of the business have been delivered by an internationally cohesive team, further strengthened by recruitment at associate level in the year.

# 1.4x

Eurofund V  
multiple

# 1.7x

Growth Capital  
Fund multiple

**Table 3: Assets under management**

Private Equity	Close date	Original fund size	Original 3i commitment	Remaining 3i commitment at March 2015	% invested at March 2015	Gross money multiple <sup>1</sup> at March 2015	AUM	Fee income received in the year £m
3i Growth Capital Fund	Mar 2010	€1,192m	€800m	€376m	53%	1.7x	€472m	2
3i Eurofund V	Nov 2006	€5,000m	€2,780m	€118m	94%	1.4x	€2,310m	11
3i Eurofund IV	Jun 2004	€3,067m	€1,941m	€78m	96%	2.3x	€471m	–
Other	Various	Various	Various	n/a	n/a	n/a	£1,098m	–
<b>Total Private Equity AUM</b>							<b>£3,785m</b>	<b>13</b>

<sup>1</sup> Gross money multiple is the cash returned to the fund plus remaining value as at 31 March 2015, as a multiple of cash invested.

# Infrastructure

## BUSINESS LINES

**“The business delivered a strong result, driven by the performance of its investment in 3i Infrastructure plc.”**

**Ben Loomes and Phil White**

Managing Partners and Co-heads of Infrastructure



Infrastructure generates returns for Proprietary Capital, primarily through our holding in 3iN, and Fund Management returns from advisory and management fees from 3iN, PPP funds and the legacy India Infrastructure fund.

Infrastructure performed strongly in the year with a gross investment return of £96 million, or 20% on the opening portfolio (2014: £2 million, 0%). The business generated £30 million (2014: £24 million) of advisory and management fees across its funds and £10 million of net performance fees (2014: nil).

### INVESTMENT ADVISER TO 3iN

In its capacity as 3iN's investment adviser, 3i advised on six new investments including the acquisition of holdings in two further oil storage facilities and a number of primary PPP projects. In total, 3iN committed £114 million to new investment in 2015 (2014: £80 million).

We also advised 3iN on the exit of its holding in Eversholt Rail, one of the three leading rail rolling stock companies in the UK. Eversholt Rail was acquired by 3iN in December 2010 as part of a consortium. In January 2015, all of the consortium partners agreed to sell the business. This resulted in proceeds of approximately £381 million for 3iN, inclusive of a £15 million dividend received by 3iN in December 2014. This compares to a 31 March 2014 valuation of £160 million.

In July 2014, 3iN's shareholders approved a number of amendments to its Investment Advisory Agreement with 3i. These included the extension of the fixed term of the agreement for a period of four years, with one year's rolling notice thereafter.

Under the terms of the investment advisory agreement, 3i received an advisory fee of £17 million (2014: £16 million) and a NAV-based performance fee of £45 million (2014: nil), of which £34 million (2014: nil) is accrued as payable to the team. Actual payments will be made over a number of years. A further £1 million in performance fees payable to the team has been accrued as a result of performance of other reward schemes.

### 3iN PERFORMANCE

In addition to its role as investment adviser, 3i holds a 34% (2014: 34%) stake in 3iN. 3iN performed strongly in the year; the share price increased by 19% to 160 pence at 31 March 2015 (31 March 2014: 135 pence) and it delivered a 25% total shareholder return in the year, the strongest annual return since the IPO in 2007.

In total, 3i's investment in 3iN contributed £77 million of value growth (2014: £5 million) and £20 million of dividend income in 2015 (2014: £21 million). This uplift was underpinned by the exit of Eversholt Rail, and value growth across its Core infrastructure portfolio, supported by the continued returns compression and consequent reduction in discount rates applied.

### ASSETS UNDER MANAGEMENT

Due to the growth in 3iN's NAV, AUM increased to £2.5 billion (31 March 2014: £2.3 billion). 3iN's strong performance offset a small value reduction in the India Infrastructure Fund following the first realisations of investments in the Fund, and where the portfolio continues to face a number of challenges. 3i's share of the Indian portfolio is now valued at £64 million (2014: £75 million).

In line with our strategy to grow Infrastructure's contribution to our Fund Management profits, we continue to explore opportunities to grow AUM. Our acquisition of BIFM in 2013 broadened the Infrastructure team's skill set and market access and, as the business grows, we expect to continue to enhance both our investment and support capabilities.

**£96m**  
gross  
investment  
return

**£30m**  
advisory and  
management  
fee income

# Debt Management

## BUSINESS LINES

**“Six new CLOs and important product diversification added £2.4 billion of new AUM.”**

**Jeremy Ghose**

Managing Partner and CEO, 3i Debt Management



Debt Management is principally a Fund Management business which primarily generates returns through managing third-party capital through CLOs and other senior debt focused funds. We also generate Proprietary Capital returns from 3i's investment in funds managed by Debt Management. Such investments are made to support new products or for regulatory purposes and totalled £105 million during the year (2014: £61 million).

The Debt Management team had a good year of fundraising, closing six new CLOs and a new €250 million European Middle Market Loan Fund. AUM grew to £7.2 billion at the end of the year (31 March 2014: £6.5 billion) as £2.4 billion of new AUM was offset by run-off and foreign exchange movements of £1.7 billion of AUM. The business generated £34 million of fee income in the year (2014: £32 million).

### FUNDRAISING ACTIVITY

In the year the team closed three CLOs in Europe and three in the US, raising a total of £2.2 billion new CLO AUM. We continue to operate CLO warehouse vehicles in both Europe and the US ahead of establishing new CLO vehicles. We also held a first close of the European Middle Market Loan Fund at €250 million, entirely with third-party funds. This is a new fund established to invest in smaller businesses than we typically target in the CLOs and is an important diversification.

The US Senior Loan Fund, an open-ended fund, performed strongly and outperformed its benchmarks in the year. AUM increased to \$157 million at 31 March 2015 (31 March 2014: \$79 million).

The team was able to take advantage of strong CLO markets and grow AUM without increasing resource in the year but is likely to require some incremental additional resource for further AUM growth, particularly as we look to diversify and grow our non-CLO product offering.

Table 4 details Debt Management AUM.

### REGULATORY ENVIRONMENT

The regulatory environment continues to evolve. European regulation now in force requires CLO sponsors or originators to retain a 5% minimum stake in each CLO raised. Similar rules are being introduced in the US and many new US CLOs are being structured to comply with both the European rules and the future US rules. This is concentrating the CLO market to those managers with access to long-term capital, such as 3i, but it is also giving rise to new business models and vehicles to support future CLOs, which 3i continues to monitor.

### VALUATIONS AND INCOME

Debt Management generated a negative gross investment return of £10 million (2014: £16 million profit), primarily as a result of an unrealised value reduction of £25 million during the year (2014: £10 million gain). As noted above, 3i is required to hold at least 5% of the European CLOs it manages. We typically invest in the most junior ranked level subordinated notes, which we account for as equity given its characteristics. During the year, we typically invested at or near par in the most junior ranked subordinated notes to satisfy the 5% holding requirement. In most cases, third-party investors have invested at a discount to 3i's investment, which sets an external reference point for valuation. This resulted in a fair value reduction of £5 million in the year. Value also reduced as a result of strong distributions from the CLO portfolio; £16 million of income was recognised. Finally, in our older European CLOs and Palace Street 1, there were a small number of underlying assets that were restructured in the year, contributing to value losses.

The performance of all of the CLOs launched in the last two years is very good, with early performance ahead of plan. There were no defaults and distributions are providing an annualised yield of between 8% and 20%.

**£34m**  
fee income

**£2.4bn**  
new AUM raised

## Debt Management continued

Table 4: Assets under management – Debt Management

	Close date	Reinvestment period end	Maturity date	Value of fund at launch <sup>1</sup>	Realised equity money Multiple <sup>2</sup>	Annualised equity cash Yield <sup>3,4,5</sup>	AUM	Fee income received in the year £m
<b>European CLO funds</b>								
Harvest CLO XI	Mar-15	Mar-19	Mar-29	€525m	n/a	n/a	€400m	–
Harvest CLO X	Nov-14	Nov-18	Nov-28	€467m	n/a	n/a	€450m	0.6
Harvest CLO IX	July-14	Aug-18	Aug-26	€525m	0.1x	19.6%	€508m	1.3
Harvest CLO VIII	Mar-14	Apr-18	Apr-26	€425m	0.1x	12.3%	€413m	1.4
Harvest CLO VII	Sep-13	Oct-17	Oct-25	€310m	0.1x	8.3%	€302m	0.7
Windmill CLO I	Oct-07	Dec-14	Dec-29	€500m	0.6x	8.6%	€479m	2.2
Axius CLO	Oct-07	Nov-13	Nov-23	€350m	0.6x	8.3%	€234m	1.6
Coniston CLO	Aug-07	Jun-13	Jul-24	€409m	1.0x	12.6%	€237m	1.1
Harvest CLO V	Apr-07	May-14	May-24	€632m	0.6x	8.1%	€539m	3.2
Garda CLO	Feb-07	Apr-13	Apr-22	€358m	1.3x	16.8%	€162m	1.3
Pre 2007 CLOs	n/a	n/a	n/a	€3,111m	n/a	n/a	€900m	7.6
<b>£3,354m</b>								
<b>US CLO funds</b>								
Jamestown CLO VI	Feb-15	Mar-19	Mar-27	US\$750m	n/a	n/a	US\$750m	0.2
Jamestown CLO V	Dec-14	Jan-19	Jan-27	US\$411m	n/a	n/a	US\$402m	0.3
Jamestown CLO IV	Jun-14	Jul-18	Jul-26	US\$618m	0.1x	16.8%	US\$599m	1.2
COA Summit CLO	Mar-14	Apr-15	Apr-23	US\$416m	0.3x	30.5%	US\$400m	0.6
Jamestown CLO III	Dec-13	Jan-18	Jan-26	US\$516m	0.1x	14.9%	US\$499m	1.2
Jamestown CLO II	Feb-13	Jan-17	Jan-25	US\$510m	0.4x	19.2%	US\$501m	1.6
Jamestown CLO I	Nov-12	Nov-16	Nov-24	US\$461m	0.4x	18.8%	US\$453m	1.4
Fraser Sullivan CLO VII	Apr-12	Apr-15	Apr-23	US\$459m	0.6x	20.8%	US\$454m	0.7
COA Caerus CLO	Dec-07	Jan-15	Dec-19	US\$240m	1.6x	23.7%	US\$240m	n/a
Pre 2007 CLOs	n/a	n/a	n/a	US\$1,000m	n/a	n/a	US\$354m	1.8
<b>£3,145m</b>								
<b>Other funds</b>								
EMMF	Nov-14	Nov-17	Nov-22	n/a	n/a	n/a	€250m	0.1
Vintage II	Nov-11	Sept-13	n/a	US\$400m	n/a	1.5x	US\$201m	0.9
Palace Street I	Aug-11	n/a	n/a	n/a	0.9x	1.9%	€3m	n/a
Senior Loan Fund	Jul-09	n/a	n/a	n/a	n/a	8.0%	US\$157m	0.3
COA Fund <sup>6</sup>	Nov-07	n/a	n/a	n/a	n/a	0.4%	US\$35m	0.3
Vintage I	Mar-07	Mar-09	Jan-22	€500m	2.9x	6.2x	€327m	2.6
Pre 2007 funds	n/a	n/a	n/a	€300m	n/a	n/a	€25m	0.2
European Warehouse vehicles	n/a	n/a	n/a	n/a	n/a	n/a	€48m	n/a
<b>£740m</b>								
<b>Total Debt Management AUM</b>								<b>£7,239m</b>

1 Includes cost of assets and principal cash amount.

2 Multiple of total equity distributions over par value of equity at launch.

3 Average annualised returns since inception of CLOs calculated as annualised cash distributions over par value of equity. Excludes unrealised equity remaining in CLO.

4 Vintage I & II returns are shown as gross money multiple which is cash returned to the Fund plus residual value as at 31 March 2015, as a multiple of cash invested.

5 The annualised returns for the COA Fund and Senior Loan Fund are the annualised net returns of the Funds since inception.

6 The COA Fund AUM excludes the market value of investments the fund has made in 3i US Debt Management CLO funds (US\$54 million as at 31 March 2015).

# Financial review

**“All of our three businesses are performing well as demonstrated by these strong results.”**

**Julia Wilson**

Group Finance Director



The Group delivered a strong result in the year. The table below summarises our key financial data under the Investment basis.

**Table 5: Summary financial data**

Investment basis	Year to/as at 31 March 2015	Year to/as at 31 March 2014
<b>Group</b>		
Total return	<b>£659m</b>	£478m
Total return on opening shareholders' funds	<b>19.9%</b>	16.3%
Dividend per ordinary share	<b>20.0p</b>	20.0p
Operating expenses	<b>£131m</b>	£136m
As a percentage of assets under management	<b>1.0%</b>	1.0%
Operating cash profit	<b>£28m</b>	£5m
<b>Proprietary Capital</b>		
Realisation proceeds	<b>£841m</b>	£677m
Uplift over opening book value <sup>1</sup>	<b>£145m/27%</b>	£191m/45%
Money multiple	<b>2.0x</b>	1.8x
Gross investment return <sup>2</sup>	<b>£805m</b>	£665m
As a percentage of opening 3i portfolio value	<b>22.6%</b>	20.2%
Operating profit <sup>3</sup>	<b>£721m</b>	£539m
Cash investment	<b>£474m</b>	£337m
3i portfolio value	<b>£3,877m</b>	£3,565m
Gross debt	<b>£815m</b>	£857m
Net cash/(debt)	<b>£49m</b>	£(160)m
Gearing	<b>nil</b>	5%
Liquidity	<b>£1,214m</b>	£1,197m
Net asset value	<b>£3,806m</b>	£3,308m
Diluted net asset value per ordinary share	<b>396p</b>	348p
<b>Fund Management</b>		
Total assets under management	<b>£13,474m</b>	£12,911m
Third-party capital	<b>£10,140m</b>	£9,508m
Proportion of third-party capital	<b>75%</b>	74%
Total fee income	<b>£125m</b>	£127m
Third-party fee income	<b>£80m</b>	£76m
Operating profit <sup>3</sup>	<b>£26m</b>	£19m
Underlying Fund Management profit <sup>3,4</sup>	<b>£33m</b>	£33m
Underlying Fund Management margin	<b>26%</b>	26%

1 Uplift over opening book value excludes refinancings. The 2014 balance has been restated from £202 million to £191 million to exclude refinancings.

2 Gross investment return includes portfolio fees of nil (2014: £3 million) allocated to Fund Management.

3 Operating profit for the Proprietary Capital and Fund Management activities excludes carried interest and performance fees payable/receivable, which is not allocated between these activities.

4 Excludes Fund Management restructuring costs of £1 million and amortisation costs of £6 million (2014: £8 million, £6 million).



## Financial review continued

## BASIS

3i adopted IFRS 10 in 2014 as its investment entity exception prevented the risk of investment companies, such as 3i, having to consolidate their portfolio investments.

However, as described in our 2014 Annual Report and Accounts, we also report using a non-GAAP "Investment basis" as we believe it aids users of our report to assess the Group's underlying operating performance. Total return and net assets are the same under the Investment basis and IFRS and we provide more detail on IFRS 10, as well as a reconciliation of our Investment basis financial statements to the audited IFRS statements, at the end of this section.

## Total return

The Group generated a total return of £659 million, or a profit on opening shareholders' funds of 19.9% (2014: £478 million or 16.3%) in 2015, reflecting further progress and achievement of our strategic priorities. Operating profit before carry for the Proprietary Capital business was £721 million (2014: £539 million). Strong underlying portfolio performance generated a gross investment return of £805 million, despite negative foreign exchange movements on the portfolio of £154 million (2014: £665 million and negative £113 million). Fund Management operating profit before carry was £26 million (2014: £19 million). Further details regarding the performance during the year is provided below.

**Table 6 Total return** for the year to 31 March

	2015 Proprietary Capital £m	2015 Fund Management £m	2015 Total £m	2014 Proprietary Capital £m	2014 Fund Management £m	2014 Total £m
Investment basis						
Realised profits over value on disposal of investments	162	–	162	202	–	202
Unrealised profits on revaluation of investments	684	–	684	475	–	475
Portfolio income						
Dividends	45	–	45	44	–	44
Income from loans and receivables	62	–	62	50	–	50
Fees receivable	6	–	6	4	3	7
Foreign exchange on investments	(154)	–	(154)	(113)	–	(113)
<b>Gross investment return</b>	<b>805</b>	<b>–</b>	<b>805</b>	<b>662</b>	<b>3</b>	<b>665</b>
Fees receivable from external funds	–	80	80	–	73	73
Synthetic fees	(45)	45	–	(51)	51	–
Operating expenses <sup>1</sup>	(32)	(99)	(131)	(28)	(108)	(136)
Interest receivable	3	–	3	3	–	3
Interest payable	(49)	–	(49)	(54)	–	(54)
Movement in the fair value of derivatives	(1)	–	(1)	10	–	10
Exchange movements	40	–	40	(3)	–	(3)
<b>Operating profit before carry</b>	<b>721</b>	<b>26</b>	<b>747</b>	<b>539</b>	<b>19</b>	<b>558</b>
Carried interest and performance fees receivable			80			3
Carried interest and performance fees payable			(142)			(85)
Acquisition related earn-out charges			(8)			(6)
<b>Operating profit</b>			<b>677</b>			<b>470</b>
Income taxes			(4)			(3)
Re-measurements of defined benefit plans			(14)			11
<b>Total comprehensive income ("Total return")</b>			<b>659</b>			<b>478</b>
<b>Total return on opening shareholders' funds</b>			<b>19.9%</b>			<b>16.3%</b>

1 Includes restructuring costs of nil (2014: £1 million) and £1 million (2014: £8 million) for Proprietary Capital and Fund Management respectively.

## PROPRIETARY CAPITAL RETURNS

Operating profit before carry on our Proprietary Capital increased by 34% to £721 million (2014: £539 million) due to strong value growth in the portfolio and good uplifts on realisations. This performance is despite foreign exchange losses of £114 million (2014: £116 million) which have principally resulted from the weakening of the euro against sterling.

By business line, the gross investment return on the opening portfolio was 24% from Private Equity (2014: 24%) and 20% from Infrastructure (2014: 0%) while Debt Management recorded a loss of 7% (2014: profit of 20%) as a result of mark to market movements which reduced CLO equity valuations. Private Equity accounts for 81% of the Proprietary Capital portfolio at 31 March 2015 (31 March 2014: 82%) and remains the primary driver of Proprietary Capital returns.

### Realised profits

Realised profits of £162 million in the year to 31 March 2015 (2014: £202 million) were driven by another year of strong exits, with realisation proceeds totalling £841 million (2014: £677 million). Realisations, excluding refinancings, were achieved at an uplift over opening value of 27%, which was lower than the 45% achieved in 2014 due to a number of assets being valued on an imminent sales basis at the beginning of the year. This past year also saw a higher level of refinancing activity, which results in cash proceeds with limited realised profit but concentrates value in the remaining investment. We continue to pursue realisations through careful exit planning, and in the current environment of high prices, will take advantage of opportunities to divest should they arise.

The majority of the realisations were from the Private Equity portfolio, which contributed £831 million (2014: £669 million), including £155 million of refinancing proceeds (2014: £59 million). Table 2, in the Private Equity section, details the Private Equity realisations in the year and sets out the accounting uplift reflected in this year's total return and the longer-term cash-to-cash results. The Private Equity realisations completed in the year have generated a money multiple of 2.0x over their investment life.

We also made our first realisation from our Indian Infrastructure portfolio, with the partial sale of the quoted shares held in Adani Power. This generated £10 million of proceeds at an uplift over the opening value of £1 million.

### Unrealised value movements

Unrealised value movement was very positive in the year, predominantly due to strong value growth from the Private Equity portfolio. The table below summarises the revaluation movement by category and each category is discussed further below.

**Table 7: Unrealised profits/(losses) on revaluation of investments** for the year to 31 March

	2015 £m	2014 £m
<b>Private Equity</b>		
Earnings based valuations		
Performance	417	182
Multiple movements	64	216
Other bases		
Provisions	–	–
Uplift to imminent sale	22	9
Discounted cash flow	89	11
Other movements on unquoted investments	3	(10)
Quoted portfolio	46	70
<b>Infrastructure</b>		
Quoted portfolio	77	6
Discounted Cash Flow	(9)	(19)
<b>Debt Management</b>	(25)	10
<b>Total</b>	<b>684</b>	<b>475</b>

### Private Equity unrealised value growth

The Private Equity portfolio performed strongly with value growth of £641 million in the year (2014: £478 million). This was underpinned by good value weighted earnings growth of 19% (2014: 19%) and a multiple increase of 6% (2014: 20%), following rises in quoted comparable multiples during the year and the re-rating of a small number of assets. Net debt remained stable at 3.1x EBITDA notwithstanding the fact that we took advantage of favourable debt conditions to refinance a number of our high quality companies (2014: 3.1x). The majority of the portfolio (93% by value, 2014: 87%) grew its earnings in the year and the larger investments continue to perform very well.

Consistent with good performance and strong equity markets, our opening quoted portfolio and the successful IPOs of Phibro, Eltel, Dphone and Refresco during the year, resulted in unrealised value growth of £46 million in addition to realised profits of £63 million in the year.

**23%**  
gross  
investment  
return

**£841m**  
realisation  
proceeds

**£641m**  
Private Equity  
value growth

## Financial review continued

## Performance

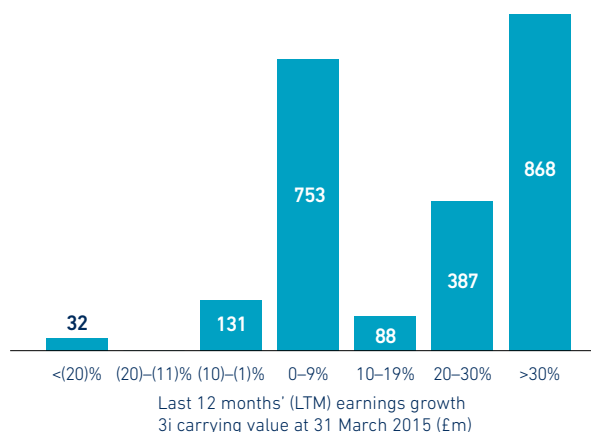
Improvements in the performance of the portfolio valued on an earnings basis resulted in an increase in value of £417 million (2014: £182 million). Value weighted earnings, the most relevant measure of NAV impact, increased by 19% (2014: 19%) in the year. Action, as our largest asset, with over 30% earnings growth in the 12 months, is a big contributor to this measure. Excluding Action, the earnings growth is still a very robust 16% and now includes all our recent investments. Acquisitions, principally funded from portfolio companies' balance sheets, contributed 2% of the 19% growth.

Although performance overall was good, there were a small number of investments where company and geography specific issues impacted value. In total, value reductions of £44 million, in relation to seven assets, offset the general improvement. The largest single negative movement related to Inspecta where performance was impacted by the economic environment in Finland and Russia. Inspecta reduced in value from £34 million at 31 March 2014 to £6 million at 31 March 2015. After the year end, we agreed an exit for this investment which is in line with the year-end valuation.

Forecast earnings, used when the forecast EBITDA outlook is lower than the last 12 months' data, were used for only two investments at 31 March 2015, representing 6% of the portfolio by number and 3% by value (2014: four, 9% by number and 3% by value). Chart 1 shows the earnings growth rates across the portfolio.

In the case of Action, the Dutch headquartered discount retailer, EBITDA for valuation purposes is adjusted to reflect a run-rate basis. Action is growing strongly due, in part, to its successful store roll-out programme. We believe this run-rate methodology fairly reflects the high growth characteristics of this business, and therefore its maintainable earnings. Following a number of IPOs by more directly comparable businesses in the discount retail sector in the last 18 months, we have also reviewed the valuation comparable set for Action. We have increased the EBITDA multiple applied to Action's run-rate earnings to 14.2x pre-liquidity discount and 13.5x post-discount (2014: 13.2x, 12.5x). Based on the run-rate earnings and capital structure at 31 March 2015, a 1x movement in the EBITDA multiple applied would increase or decrease Action's value by £56 million. At £592 million (2014: £501 million), Action is the largest Private Equity investment by value, representing 19% of the Private Equity portfolio (2014: 17%).

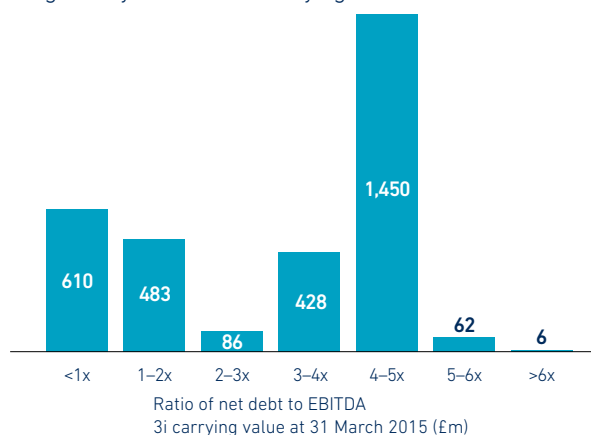
**Chart 1: Portfolio earnings growth**  
weighted by March 2015 carrying values<sup>1</sup>



<sup>1</sup> Includes all companies valued on an earnings basis where comparable earnings data is available. This represents 72% of the Private Equity portfolio by value.

We took the opportunity to refinance a number of high quality companies, both increasing and extending the maturity of portfolio debt, with 88% of the debt now repayable in 2017 or later (2014: 65%). Chart 2 shows the ratio of net debt to EBITDA weighted by portfolio value.

**Chart 2: Ratio of debt to EBITDA – Private Equity portfolio**  
weighted by March 2015 carrying values<sup>1</sup>



<sup>1</sup> This represents 99% of the Private Equity portfolio by value.

## Multiple movements

Equity markets performed strongly throughout the year and the average EBITDA multiple in the FTSE 250 increased by 10% to 14.6x in the year (source: Capital IQ, excluding investment companies and banks). As a matter of policy, we select an appropriate multiple for each investment based on a comparable set of quoted companies and adjust these comparable multiple sets with discounts and occasionally premiums to take account of relevant size, sector, growth and cycle considerations as appropriate. Against a strong market backdrop, we have continued to apply a high level of adjustments to reflect our caution about realistic valuation uplifts.

**19%**  
value weighted  
earnings growth

**3.1x**  
net debt over  
EBITDA

The average EBITDA multiple used to value the Private Equity portfolio increased by 6% to 11.2x before liquidity discount (2014: 10.6x) and 10.5x after liquidity discount (2014: 9.9x). This translated into a positive movement in the year of £64 million (2014: £216 million), including £45 million relating to the Action multiple change. Excluding Action, the average EBITDA multiple increased by 3% to 10.1x pre discount (2014: 9.8x) and 9.3x (2014: 9.0x) post discount.

#### Imminent sale

Four exit processes were sufficiently progressed to value on an imminent sales basis at 31 March 2015 and the uplift to imminent sale was £22 million (2014: £9 million). All four have been announced since 31 March 2015 and are: Azelis, Inspecta, Touchtunes and Soyaconcept.

#### Discounted cash flow

The largest investment valued using DCF in the Private Equity portfolio is the Danish/German ferry group, Scandlines, which recorded value growth of £94 million. Scandlines' largest ferry route, Rødby-Puttgarden, is expected to have direct competition from a new tunnel (the Fehmarn Belt project) at some point in the future. In light of recent public commentary around expected potential delays to the opening of this new tunnel, we have moved back our assumption for the likely tunnel opening date in the latest 31 March 2015 DCF valuation of Scandlines. This change, combined with the profitable sale of a JV route in the year, were the primary drivers of the increase in the value of our investment in Scandlines in the period.

#### Quoted portfolio

The Private Equity quoted portfolio, including IPOs in the year, generated unrealised value growth of £46 million (2014: £70 million). The investments in Gain and Phibro were fully divested in the year and are noted in the realisations table on page 16. Table 8 details the movement in the year and closing quoted portfolio.

#### Infrastructure unrealised value movement

The Infrastructure portfolio primarily consists of our 34% holding in 3iN. 3iN grew strongly in value during the year, as a result of the divestment of Eversholt Rail and a re-rating of a number of the remaining Core infrastructure investments following a year of returns compression in the market. 3iN generated value growth of £77 million for 3i Group in the year, driven by a 19% increase in the share price to 160 pence (2014: 135 pence). This was slightly offset by further modest falls in value of the Indian Infrastructure portfolio as the investments continued to face a number of challenges.

#### Debt Management unrealised value movement

The unrealised value movement in Debt Management comprises mark-to-market valuations on both the CLO equity and the direct investments held through warehouses, the US Senior Loan Fund and Palace Street I.

Of the unrealised loss of £25 million in the year (2014: £10 million gain), £22 million has been recognised on CLO equity. Three factors have driven the CLO prices. Firstly, as funds make distributions, they effectively convert value to portfolio income; £16 million of distributions were received by 3i in the year. Secondly, new investments into European CLOs have typically been made by 3i, as sponsor, at par value but other investors often invest at a discount. This can result in a fall in value in the short term as the independent market prices we source typically trend towards the non-sponsor trades. This resulted in a fair value reduction of £5 million in the year. Long-term cash returns remain unaffected (ie the valuation volatility at the time of issue is not considered to be an indicator of long-term cash returns of the CLO). Finally, a number of the older CLOs had exposure to two poorer performing pre-crisis assets, which were restructured in the year and further reduced value.

The remaining £3 million value loss related principally to the wind down of Palace Street I, which had exposure to the same two restructured assets.

**£77m**  
value growth  
from 3iN

**Table 8: Quoted portfolio movement** for the year to 31 March 2015

Investment	IPO date	Opening value at 1 April 2014 £m <sup>1</sup>	Disposals at opening book value £m	Unrealised value growth £m	Other movements £m <sup>2</sup>	Closing value at 31 March 2015 £m	Total gross investment return during the year £m
Quintiles	Pre 31 March 2014	122	(26)	30	18	144	52
Eltel	February 2015	99	(62)	9	1	47	63
Phibro	April 2014	93	(95)	–	2	–	30
Refresco	March 2015	57	(15)	4	1	47	31
Dphone	July 2014	34	–	3	(2)	35	11
Gain Capital	Pre 31 March 2014	12	(13)	–	1	–	(1)
		<b>417</b>	<b>(211)</b>	<b>46</b>	<b>21</b>	<b>273</b>	<b>186</b>

1 For portfolio companies with an IPO during the year, this is the value pre-IPO.

2 Other movements include dividends and foreign exchange.

## Financial review continued

**Portfolio income**

Income from the portfolio increased by 15% and was £113 million in the year to 31 March 2015 (2014: £98 million) of which £80 million was received in cash (2014: £57 million). Dividends of £45 million were received (2014: £44 million), including £20 million from 3iN (2014: £21 million) and £16 million from Debt Management CLO investments (2014: £10 million). Interest income totalled £62 million (2014: £50 million), with £56 million (2014: £46 million) generated from Private Equity investments and £6 million (2014: £4 million) generated from Debt Management investments. Approximately 75% of Private Equity interest income is capitalised and received on exit, although activity in the portfolio during the year resulted in a higher element of interest being received as cash.

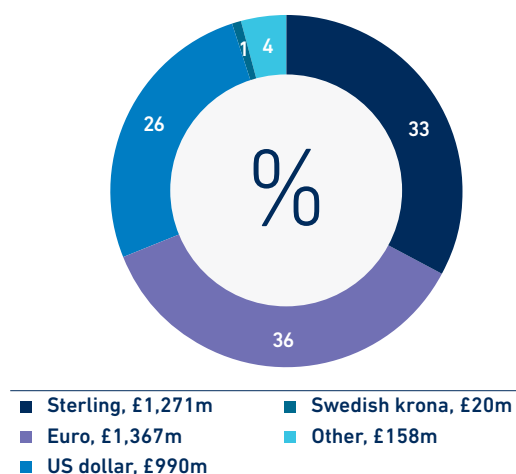
**Net foreign exchange movements**

The total net foreign exchange loss of £114 million (2014: £116 million) was driven by the strengthening of sterling against the euro (12.5%), Brazilian real (20.9%) and Swedish krona (15.7%) resulting in losses of £175 million, £6 million and £13 million respectively. Sterling weakened against the US dollar (12.4%) and Indian rupee (7.8%) during the year, resulting in gains of £76 million and £5 million respectively. The net foreign exchange loss reflects losses on non-sterling denominated portfolio assets, as well as the translation of non-portfolio net assets, including non-sterling cash held at the balance sheet date and gross debt.

As at 31 March 2015, a 1% movement in the euro, US dollar and the Swedish krona would give rise to a £16 million, £8 million and £1 million movement in total return respectively.

The net assets of the Group by currency are shown in Chart 3 below.

**Chart 3: Net assets of the Group by currency**  
at 31 March 2015

**Proprietary Capital costs**

Proprietary Capital costs include 100% of costs in relation to the CEO, Group Finance Director and General Counsel and elements of finance, IT, property, legal and regulatory, strategy and human resources. Operating expenses increased by 14% to £32 million (2014: £28 million) as the Group recognised the costs of regulatory changes.

Synthetic fees, as defined in the glossary, of £45 million (2014: £51 million) reflect the lower level of Proprietary Capital being managed as a result of net divestment activity, predominantly in Private Equity.

**Net interest payable**

The gross interest paid was £49 million (2014: £54 million) and 18% below the target set in 2012 to reduce interest paid to £60 million per annum. Included within this year's expense is £1.5 million of arrangement fees in relation to the Group's Revolving Credit Facility ("RCF") which were written off when it was replaced with a new £350 million facility. The new facility will reduce ongoing financing costs by £1.5 million per year.

The current gross debt position is detailed further in the Balance Sheet section of this Financial Review and in Note 16 of the Accounts.

Cash interest received remained stable at £3 million (2014: £3 million).

**FUND MANAGEMENT RETURNS**

**Table 9: Fund Management underlying profit**  
for the year to 31 March

	2015 £m	2014 £m
<b>Fees receivable from external funds<sup>1</sup></b>		
Private Equity	16	20
Infrastructure	30	24
Debt Management	34	32
<b>Synthetic fees</b>		
Private Equity	42	47
Infrastructure	3	3
Debt Management	–	1
<b>Total fee income</b>	<b>125</b>	<b>127</b>
<b>Fund Management operating expenses</b>	<b>(99)</b>	<b>(108)</b>
<b>Operating profit before carry</b>	<b>26</b>	<b>19</b>
Restructuring costs	1	8
Amortisation costs	6	6
<b>Underlying Fund Management profit</b>	<b>33</b>	<b>33</b>

1 Includes nil portfolio related income in 2015 (2014: £3 million).

**15%**  
increase in  
portfolio income

**£13.5bn**  
AUM

**£33m**  
Underlying fund  
Management  
profit, 26%  
margin



The Group's Fund Management income is driven by total AUM, which was £13.5 billion at 31 March 2015 (31 March 2014: £12.9 billion). The launch of six CLOs, the European Middle Market Loan Fund and further commitments to the US Senior Loan Fund in the Debt Management business offset a fall in AUM arising from net divestment activity in Private Equity. The proportion of third-party assets under management grew marginally to 75% (2014: 74%).

An increase in third-party fee income and a fall in operating expenses were offset by a fall in synthetic fees applied from the Proprietary Capital business as a result of net divestment in Private Equity.

As a result of the completion of our transformation plan, Fund Management improved both its absolute profit and profit margin to £26 million and 21% respectively (2014: £19 million, 15%). Excluding restructuring and amortisation costs, underlying operating profit and margin remained stable at £33 million (2014: £33 million) and 26% (2014: 26%).

## TOTAL RETURN

**Table 10: Summarised total return** for the year to 31 March

	2015 £m	2014 £m
Proprietary Capital operating profit before carry	721	539
Fund Management operating profit before carry	26	19
<b>Operating profit before carry</b>	<b>747</b>	<b>558</b>
Carried interest and performance fees receivable from external funds	80	3
Carried interest and performance fees payable	(142)	(85)
Acquisition related earn-out charges	(8)	(6)
<b>Operating profit</b>	<b>677</b>	<b>470</b>
Tax	(4)	(3)
Re-measurement of defined benefit plans	(14)	11
<b>Total comprehensive income ("Total return")</b>	<b>659</b>	<b>478</b>
<b>Total return on opening shareholders' funds</b>	<b>19.9%</b>	<b>16.3%</b>

## NET CARRIED INTEREST AND PERFORMANCE FEES PAYABLE

Net carried interest and performance fees payable decreased in the year, with a net payable of £62 million (31 March 2014: £82 million payable). On a gross basis, carried interest and performance fees payable increased to £142 million (2014: £85 million) and the receivable increased to £80 million (2014: £3 million).

Our largest Private Equity fund, Eurofund V, which includes assets purchased in 2007–12, has not yet met the performance hurdle due to the performance of the 2007–09 vintages. Although we have seen a strong

recovery in that fund's multiple to 1.4x (March 2014: 1.1x) invested capital, with 2010–12 investments valued at 2.6x (March 2014: 2.1x), the drag from these earlier investments means that we have not yet recognised carry receivable from this fund.

Assets in the Growth Capital Fund include Quintiles, Refresco-Gerber, Touchtunes and BVG and, as a result of their strong performance, its multiple on invested capital is now 1.7x (March 2014: 1.3x). We are now recognising carry receivable on an accruals basis and £25 million was recognised in the year (31 March 2014: nil).

We pay carry to our Private Equity investment teams on proprietary capital invested and share a proportion of carry receivable from third-party funds. This total carry payable is provided through schemes which have been structured historically over two or three year vintages to maximise flexibility in resource planning. The improved performance of the Private Equity portfolio over the last two years means that the majority of assets by value are now held in carry payable schemes that have met their performance hurdles, assuming the portfolio was realised at its 31 March 2015 valuation. Carry payable typically will increase or decrease in line with the gross investment return at rates between 10% and 15%. The gross investment return in Private Equity of £719 million (2014: £647 million) resulted in an accrual of £103 million carry payable in the year, or 14% of gross investment return (31 March 2014: £82 million, 13%). Carry is usually only paid once the hurdles are passed in cash terms and, during the year, £7 million was paid (2014: £19 million).

3iN pays a performance fee on an annual basis, subject to a hurdle rate of return and a high-water mark based on net asset value. The strong performance of the European assets held by 3iN, including the exit of Eversholt Rail, resulted in an accrual of £45 million of performance fees receivable in the year (31 March 2014: nil). Our Infrastructure investment team shares in the performance fee receivable from 3iN, with the majority of individual payments deferred over a number of years. Carry payable to the Infrastructure team of £35 million has been accrued (2014: nil) including £34 million in relation to the 3iN performance fee.

## PENSION

The IAS19 liabilities of the Group's defined benefit pension schemes have been impacted by decreases in their discount rates, driven by the AA corporate bond yields. This resulted in a re-measurement loss of £14 million (2014: £11 million gain) for the year. On an IAS19 basis the pension scheme remains in a significant surplus.

The 2013 triennial valuation of the UK defined benefit pension scheme was completed in March 2014. It resulted in a very small surplus and consequently no further contributions were made, or are planned, as a result of this valuation.

## OPERATING CASH PROFIT

**Table 11: Operating cash profit** for the year to 31 March

	2015 £m	2014 £m
Third-party capital fees	78	75
Cash portfolio fees	10	4
Cash portfolio dividends and interest	70	53
<b>Cash income</b>	<b>158</b>	<b>132</b>
Total operating expenses <sup>1</sup>	131	136
Less: Restructuring costs	(1)	(9)
<b>Operating expenses excluding restructuring costs</b>	<b>130</b>	<b>127</b>
<b>Operating cash profit</b>	<b>28</b>	<b>5</b>

<sup>1</sup> Operating expenses are calculated on an accruals basis.

Third-party fees increased during the year following the launch of six Debt Management CLOs and the European Middle Market Loan Fund. Alongside growth in third-party fees we have focused on generating cash income from the portfolio. Increased investment into cash yielding Debt Management funds has generated good income and the Private Equity portfolio has benefited from increased deal fees on higher levels of activity. Consequently, the Group has been able to materially improve its operating cash income to £158 million (2014: £132 million) despite the net divestment activity in Private Equity.

Total operating expenses declined by 4% to £131 million (2014: £136 million) as restructuring costs, which comprise redundancy, office closures and organisational changes, reduced to £1 million (2014: £9 million) as we reached the end of our transformation plan. Excluding restructuring costs, operating expenses increased by 2% to £130 million (2014: £127 million) principally due to an increase in variable compensation resulting from share based payments. Operating expenses as a percentage of weighted average AUM remained stable at 1.0% (2014: 1.0%), as a result of the continuing cost focus combined

with the new CLO fund launches in the year. We expect costs to rise marginally as we look to grow the business, increase activity and deal with increased regulation but we expect costs to remain at c1.0% of AUM.

In total, the operating cash profit position increased strongly to £28 million (2014: £5 million).

## BALANCE SHEET

**Table 12: Simplified balance sheet** as at 31 March

	2015 £m	2014 £m
<b>Investment portfolio value</b>	<b>3,877</b>	3,565
Gross debt	(815)	(857)
Cash	864	697
<b>Net cash/(debt)</b>	<b>49</b>	<b>(160)</b>
Other net liabilities	(120)	(97)
<b>Net assets</b>	<b>3,806</b>	<b>3,308</b>

The Proprietary Capital portfolio increased to £3,877 million at 31 March 2015 (31 March 2014: £3,565 million) as cash investment of £474 million and unrealised value growth of £684 million offset the good realisations and the negative impact of foreign exchange movements.

The mix of the portfolio remained broadly stable. The marginal decline in Private Equity to 81% (31 March 2014: 82%) was offset by a 1% increase in Debt Management to 5% (31 March 2014: 4%). The weighting of the Infrastructure portfolio remained stable at 14% (31 March 2014: 14%).

Net divestment activity and an operating cash profit led to cash on the balance sheet increasing to £864 million (31 March 2014: £697 million). Combined with a reduction in the sterling equivalent of the 2017 euro denominated bond, the Group was in a net cash position of £49 million at 31 March 2015 (31 March 2014: £160 million net debt) ahead of paying the final dividend for FY2015.

£28m

Operating cash profit

## CASH FLOW

### Investment and realisations

**Table 13: Investment activity – Proprietary Capital and third-party capital** for the year to 31 March

	Proprietary Capital		Proprietary and Third-party Capital	
	2015 £m	2014 £m	2015 £m	2014 £m
Realisations	841	677	1,363	1,129
Cash investment	(474)	(337)	(562)	(517)
Net cash divestment	<b>367</b>	340	<b>801</b>	612
Non-cash investment	(140)	(167)	(191)	(279)
Net divestment	<b>227</b>	173	<b>610</b>	333

Cash proceeds from realisations of £841 million (2014: £677 million) were partly offset by cash investment of £474 million (2014: £337 million) and resulted in net cash inflow of £367 million (2014: £340 million). A further £140 million of investment was in non-cash form (2014: £167 million) and total investment was £614 million (2014: £504 million).

Further detail on investment and realisations is included in the relevant business line sections.

## Gearing and borrowings

**Table 14: Gearing and borrowings** as at 31 March

	2015	2014
Gross debt	£815m	£857m
Net cash/(debt)	£49m	£(160)m
Gearing	nil	5%

Gearing reduced to nil at 31 March 2015 (31 March 2014: 5%) as the Group ended the year in a net cash position. Overall shareholders' funds increased to £3,806 million (31 March 2014: £3,308 million) following the total return of £659 million in the year to 31 March 2015.

### Liquidity

Total liquidity was substantially unchanged at 31 March 2015 compared to 31 March 2014 at £1,214 million (31 March 2014: £1,197 million). Cash and deposits increased to £864 million (31 March 2014: £697 million) as a result of net divestment and undrawn facilities reduced to £350 million (31 March 2014: £500 million) following the RCF refinancing.

### Foreign exchange hedging

As a result of the reduction in non-sterling gross debt, and the increased concentration of the portfolio into a smaller number of individually significant assets, the use of derivatives for portfolio value hedging purposes is less effective. As a result, derivatives are no longer used to hedge currency movements on a portfolio basis and foreign exchange risk is considered as an integral part of the investment process. Specific short-term hedging on entry or exit of an investment may be used as appropriate.

### Diluted NAV

The diluted NAV per share at 31 March 2015 was 396 pence (31 March 2014: 348 pence). This was driven by the total return in the year of £659 million (2014: £478 million), and partially offset by dividend payments in the year of £183 million (2014: £114 million).

### Dividend

The Board has declared a total dividend of 20.0p (2014: 20.0p) for 2015. This is made up of a 8.1p base dividend and an 11.9p additional dividend. Due to our current net divestment activity and robust balance sheet, we have proposed an additional dividend above the top end of our 15%–20% distribution range, equivalent to 23% of gross realised proceeds. Subject to shareholder approval, we will pay the final dividend of 14.0p (2014: 13.3p) on 24 July 2015 to shareholders on the register at 19 June 2015.

### Key accounting judgements

In preparing these accounts, the key accounting judgement relates to the **carrying value of our investment assets which are stated at fair value**.

Given the importance of this area, the Board has a separate Valuations Committee to review the valuations policies, process and application to individual investments. However, asset valuations for non-quoted investments are inherently subjective, as they are made on the basis of assumptions which may not prove to be accurate. At 31 March 2015 80% of the investment assets were non-quoted (31 March 2014: 84%). A report on the activities of the Valuations Committee is included in the Governance section of this report and Note 10 of the Accounts provides further detail on sensitivity.

**Accounting for investment entities:** an assessment is required to determine the degree of control or influence the Group exercises and the form of any control to ensure that the financial treatment is accurate. IFRS 10 has resulted in a number of intermediate holding companies being presented at fair value which has led to reduced transparency of the underlying investment performance. As a result the Group continues to present an alternative non-GAAP investment basis set of financial statements to ensure that the commentary in the Strategic report remains fair, balanced and understandable.



### READ MORE

Further information on the Audit and Compliance Committee's activities can be found on page 65

Further information on the Valuations Committee's activities can be found on page 69

# Investment basis

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Total 2015 £m	Total 2014 £m
Realised profits over value on the disposal of investments	162	202
Unrealised profits on the revaluation of investments	684	475
Portfolio income		
Dividends	45	44
Income from loans and receivables	62	50
Fees receivable	6	7
Foreign exchange (loss) on investments	(154)	(113)
<b>Gross investment return</b>	<b>805</b>	<b>665</b>
Fees receivable from external funds	80	73
Operating expenses	(131)	(136)
Interest receivable	3	3
Interest payable	(49)	(54)
Movement in the fair value of derivatives	(1)	10
Foreign exchange gain/(loss)	40	(3)
<b>Operating profit before carry</b>	<b>747</b>	<b>558</b>
Carried interest		
Carried interest and performance fees receivable	80	3
Carried interest and performance fees payable	(142)	(85)
Acquisition related earn-out charges	(8)	(6)
<b>Operating profit</b>	<b>677</b>	<b>470</b>
Income taxes	(4)	(3)
<b>Profit for the year</b>	<b>673</b>	<b>467</b>
Other comprehensive income		
Re-measurements of defined benefit plans	(14)	11
<b>Total comprehensive income for the year ("Total return")</b>	<b>659</b>	<b>478</b>

# Investment basis

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Total 2015 £m	Total 2014 £m
<b>Assets</b>		
<b>Non-current assets</b>		
Investments		
Quoted investments	763	554
Unquoted investments	3,114	3,011
<b>Investment portfolio</b>	<b>3,877</b>	<b>3,565</b>
Carried interest and performance fees receivable	43	17
Intangible assets	19	26
Retirement benefit surplus	136	137
Property, plant and equipment	4	5
Deferred income taxes	3	3
<b>Total non-current assets</b>	<b>4,082</b>	<b>3,753</b>
<b>Current assets</b>		
Carried interest and performance fees receivable	45	–
Other current assets	85	92
Derivative financial instruments	–	2
Cash and cash equivalents	864	697
<b>Total current assets</b>	<b>994</b>	<b>791</b>
<b>Total assets</b>	<b>5,076</b>	<b>4,544</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Carried interest and performance fees payable	(214)	(106)
Acquisition related earn-out charges payable	(10)	(18)
Loans and borrowings	(815)	(849)
B shares	–	(6)
Retirement benefit deficit	(19)	(14)
Deferred income taxes	(3)	(2)
Provisions	(5)	(5)
<b>Total non-current liabilities</b>	<b>(1,066)</b>	<b>(1,000)</b>
<b>Current liabilities</b>		
Trade and other payables	(169)	(198)
Carried interest and performance fees payable	(13)	(11)
Acquisition related earn-out charges payable	(17)	(10)
Derivative financial instruments	–	(4)
Current income taxes	(2)	(4)
Deferred income taxes	–	(1)
Provisions	(3)	(8)
<b>Total current liabilities</b>	<b>(204)</b>	<b>(236)</b>
<b>Total liabilities</b>	<b>(1,270)</b>	<b>(1,236)</b>
<b>Net assets</b>	<b>3,806</b>	<b>3,308</b>
<b>Equity</b>		
Issued capital	719	718
Share premium	784	782
Other reserves	2,382	1,897
Own shares	(79)	(89)
<b>Total equity</b>	<b>3,806</b>	<b>3,308</b>



# Investment basis

## CONSOLIDATED CASH FLOW STATEMENT

	Total 2015 £m	Total 2014 £m
<b>Cash flow from operating activities</b>		
Purchase of investments	(474)	(337)
Proceeds from investments	841	677
Cash divestment from traded portfolio	21	14
Portfolio interest received	26	9
Portfolio dividends received	44	44
Portfolio fees received	10	4
Fees received from external funds	78	75
Carried interest received	6	5
Carried interest and performance fees paid	(13)	(25)
Acquisition related earn-out charges paid	(10)	–
Operating expenses	(117)	(128)
Interest received	3	3
Interest paid	(54)	(57)
Income taxes paid	(5)	(7)
<b>Net cash flow from operating activities</b>	<b>356</b>	<b>277</b>
<b>Cash flow from financing activities</b>		
Issue of shares	3	–
Repurchase of B shares	(6)	–
Dividend paid	(183)	(114)
Repayment of short-term borrowings	–	(164)
Net cash flow from derivatives	9	(32)
<b>Net cash flow from financing activities</b>	<b>(177)</b>	<b>(310)</b>
<b>Cash flow from investing activities</b>		
Acquisition of management contracts	–	2
Net cash flow from deposits	–	90
<b>Net cash flow from investing activities</b>	<b>–</b>	<b>92</b>
<b>Change in cash and cash equivalents</b>	<b>179</b>	<b>59</b>
Cash and cash equivalents at the start of year	697	656
Effect of exchange rate fluctuations	(12)	(18)
<b>Cash and cash equivalents at the end of year</b>	<b>864</b>	<b>697</b>

# Reconciliation of Investment basis to IFRS

## BACKGROUND TO INVESTMENT BASIS FINANCIAL STATEMENTS

The Group makes investments in portfolio companies directly, held by 3i Group plc, and indirectly, held through intermediate holding company and partnership structures ("Investment entity subsidiaries"). It also has other operational subsidiaries which provide services and other activities such as employment, regulatory activities, management and advice ("Trading subsidiaries"). The application of IFRS 10 requires us to fair value a number of intermediate holding companies that were previously consolidated line by line. This fair value approach, applied at the intermediate holding company level, effectively obscures the performance of our proprietary capital investments and associated transactions occurring in the intermediate holding companies. The financial effect of the underlying portfolio companies and fee income, operating expenses and carried interest transactions occurring in Investment entity subsidiaries are aggregated into a single value. Other items which were previously eliminated on consolidation are now included separately.

As a result we introduced separate non-GAAP "Investment basis" Statements of comprehensive income, financial position and cash flow in our 2014 Annual report and accounts to aid understanding of our results. The Strategic report is also prepared using the Investment basis as we believe it provides a more understandable view of our performance. Total return and net assets are equal under the Investment basis and IFRS; the Investment basis is

simply a "look through" of IFRS 10 to present the underlying performance. The two diagrams below illustrate these changes, together with an illustrative example to show how information can be aggregated.

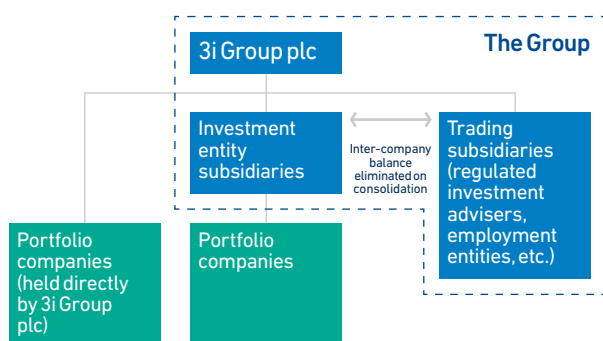
## RECENT IFRS 10 DEVELOPMENTS

The IASB issued a narrow scope amendment to IFRS 10 in December 2014, and subsequently the Group has revisited its initial assessment of all of its subsidiaries, resulting in a small number of entities now being consolidated rather than fair valued in the IFRS financial statements. The Group has chosen to adopt the changes provided in the narrow scope amendment, and has accounted for the change in treatment retrospectively. The change has no effect on total return or net asset value as reported in the Group's IFRS financial statements. The Investment basis statements are unchanged, as the entities now being consolidated in the IFRS statements have always been consolidated in the Investment basis. Given the judgement involved in interpreting the standard, and ongoing discussion amongst the IASB and practitioners, similar changes in future years remain possible.

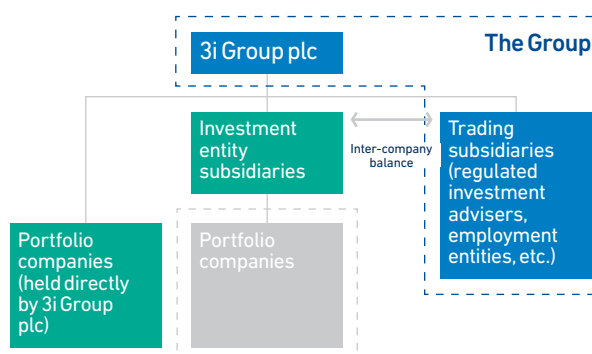
## RECONCILIATION BETWEEN INVESTMENT BASIS AND IFRS

A detailed reconciliation from the Investment basis to IFRS basis of the Statement of comprehensive income, Statement of financial position and Cash flow statement is shown on pages 34 to 37.

### Investment basis/previous basis of consolidation



### IFRS 10/new basis of consolidation



## ILLUSTRATIVE EXAMPLE – STATEMENT OF COMPREHENSIVE INCOME

	Previous basis of consolidation	IFRS 10 consolidation
Realised/unrealised investment returns	170	50
Fair value movements on investment entity subsidiaries	–	90
Portfolio income	20	5
Operating expenses	(50)	(10)
Carry payable	(10)	(5)
	130	130

Investment entity subsidiary activity	
Realised/unrealised investment returns	120
Portfolio income	15
Operating expenses	(40)
Carry payable	(5)
	90

# Reconciliation of consolidated statement of comprehensive income

	Note	Investment basis 2015 £m	IFRS adjustments 2015 £m	IFRS basis 2015 £m	Investment basis 2014 £m	IFRS adjustments (restated) 2014 £m	IFRS basis (restated) 2014 £m
Realised profits over value on the disposal of investments	1, 2	162	(108)	54	202	(56)	146
Unrealised profits on the revaluation of investments	1, 2	684	(448)	236	475	(394)	81
Fair value movements on investment entity subsidiaries	1	–	530	530	–	433	433
Portfolio income							
Dividends	1, 2	45	(9)	36	44	(19)	25
Income from loans and receivables	1, 2	62	(24)	38	50	(21)	29
Fees receivable		6	–	6	7	–	7
Foreign exchange on investments	1, 3	(154)	105	(49)	(113)	68	(45)
<b>Gross investment return</b>		<b>805</b>	<b>46</b>	<b>851</b>	<b>665</b>	<b>11</b>	<b>676</b>
Fees receivable from external funds	1, 4	80	–	80	73	2	75
Operating expenses	1, 4	(131)	9	(122)	(136)	–	(136)
Interest receivable		3	–	3	3	–	3
Interest payable		(49)	–	(49)	(54)	–	(54)
Movement in the fair value of derivatives		(1)	–	(1)	10	–	10
Exchange movements	1, 3	40	(101)	(61)	(3)	(39)	(42)
Income from fair value subsidiaries	1	–	1	1	–	8	8
<b>Operating profit before carry</b>		<b>747</b>	<b>(45)</b>	<b>702</b>	<b>558</b>	<b>(18)</b>	<b>540</b>
Carried interest							
Carried interest and performance fees receivable		80	–	80	3	–	3
Carried interest and performance fees payable	1, 4	(142)	70	(72)	(85)	68	(17)
Acquisition related earn-out charges		(8)	–	(8)	(6)	–	(6)
<b>Operating profit</b>		<b>677</b>	<b>25</b>	<b>702</b>	<b>470</b>	<b>50</b>	<b>520</b>
Income taxes	1, 4	(4)	2	(2)	(3)	–	(3)
<b>Profit for the year</b>		<b>673</b>	<b>27</b>	<b>700</b>	<b>467</b>	<b>50</b>	<b>517</b>
Other comprehensive income							
Exchange differences on translation of foreign operations	1, 3	–	(27)	(27)	–	(50)	(50)
Re-measurements of defined benefit plans		(14)	–	(14)	11	–	11
<b>Total comprehensive income for the year ("Total return")</b>		<b>659</b>	<b>–</b>	<b>659</b>	<b>478</b>	<b>–</b>	<b>478</b>

## Notes:

- 1 Applying IFRS 10 to the Statement of comprehensive income consolidates the line items of a number of previously consolidated subsidiaries into a single line item "Fair value movements on investment entity subsidiaries". In the "Investment basis" accounts we have disaggregated these line items to analyse our total return as if these investment entity subsidiaries were fully consolidated, consistent with prior years. The adjustments simply reclassify the Statement of comprehensive income of the Group, and the total return is equal under the Investment basis and the IFRS basis.
- 2 Realised profits, unrealised profits, and portfolio income shown in the IFRS accounts only relate to portfolio companies that are held directly by 3i Group plc and not those portfolio companies held through investment entity subsidiaries. Realised profits, unrealised profits, and portfolio income in relation to portfolio companies held through investment entity subsidiaries are aggregated into the single "Fair value movement on investment entity subsidiaries" line. This is the most significant reduction of information in our IFRS accounts.
- 3 Foreign exchange movements have been reclassified under the Investment basis as foreign currency asset and liability movements within the investment entity subsidiaries are included within "Fair value movements on investment entities".
- 4 Other items also aggregated into the "Fair value movements on investment entity subsidiaries" line include fees receivable from external funds, audit fees, custodian fees, bank charges, other general and administration expenses, carried interest and tax.

# Reconciliation of consolidated statement of financial position

	Note	Investment basis 2015 £m	IFRS adjustments 2015 £m	IFRS basis 2015 £m	Investment basis 2014 £m	IFRS adjustments (restated) 2014 £m	IFRS basis (restated) 2014 £m
<b>Assets</b>							
<b>Non-current assets</b>							
Investments							
Quoted investments	1	763	(364)	399	554	(296)	258
Unquoted investments	1	3,114	(1,842)	1,272	3,011	(1,687)	1,324
Investments in investment entities	1,3	–	2,079	2,079	–	1,909	1,909
<b>Investment portfolio</b>		<b>3,877</b>	<b>(127)</b>	<b>3,750</b>	<b>3,565</b>	<b>(74)</b>	<b>3,491</b>
Carried interest and performance fees receivable	1	43	–	43	17	–	17
Intangible assets	1	19	–	19	26	(1)	25
Retirement benefit surplus		136	–	136	137	–	137
Property, plant and equipment		4	–	4	5	–	5
Deferred income taxes	1	3	–	3	3	–	3
<b>Total non-current assets</b>		<b>4,082</b>	<b>(127)</b>	<b>3,955</b>	<b>3,753</b>	<b>(75)</b>	<b>3,678</b>
<b>Current assets</b>							
Carried interest and performance fees receivable		45	–	45	–	–	–
Other current assets	1	85	(31)	54	92	(16)	76
Derivative financial instruments		–	–	–	2	–	2
Cash and cash equivalents	1,2	864	(3)	861	697	(23)	674
<b>Total current assets</b>		<b>994</b>	<b>(34)</b>	<b>960</b>	<b>791</b>	<b>(39)</b>	<b>752</b>
<b>Total assets</b>		<b>5,076</b>	<b>(161)</b>	<b>4,915</b>	<b>4,544</b>	<b>(114)</b>	<b>4,430</b>
<b>Liabilities</b>							
<b>Non-current liabilities</b>							
Carried interest and performance fees payable	1	(214)	142	(72)	(106)	76	(30)
Acquisition related earn-out charges payable		(10)	–	(10)	(18)	–	(18)
Loans and borrowings		(815)	–	(815)	(849)	–	(849)
B shares		–	–	–	(6)	–	(6)
Retirement benefit deficit		(19)	–	(19)	(14)	–	(14)
Deferred income taxes		(3)	2	(1)	(2)	–	(2)
Provisions	1	(5)	–	(5)	(5)	–	(5)
<b>Total non-current liabilities</b>		<b>(1,066)</b>	<b>144</b>	<b>(922)</b>	<b>(1,000)</b>	<b>76</b>	<b>(924)</b>
<b>Current liabilities</b>							
Trade and other payables	1	(169)	17	(152)	(198)	32	(166)
Carried interest and performance fees payable	1	(13)	–	(13)	(11)	5	(6)
Acquisition related earn-out charges payable		(17)	–	(17)	(10)	–	(10)
Derivative financial instruments		–	–	–	(4)	–	(4)
Current income taxes	1	(2)	–	(2)	(4)	–	(4)
Deferred income taxes	1	–	–	–	(1)	1	–
Provisions	1	(3)	–	(3)	(8)	–	(8)
<b>Total current liabilities</b>		<b>(204)</b>	<b>17</b>	<b>(187)</b>	<b>(236)</b>	<b>38</b>	<b>(198)</b>
<b>Total liabilities</b>		<b>(1,270)</b>	<b>161</b>	<b>(1,109)</b>	<b>(1,236)</b>	<b>114</b>	<b>(1,122)</b>
<b>Net assets</b>		<b>3,806</b>	<b>–</b>	<b>3,806</b>	<b>3,308</b>	<b>–</b>	<b>3,308</b>
<b>Equity</b>							
Issued capital		719	–	719	718	–	718
Share premium		784	–	784	782	–	782
Other reserves	4	2,382	–	2,382	1,897	–	1,897
Own shares		(79)	–	(79)	(89)	–	(89)
<b>Total equity</b>		<b>3,806</b>	<b>–</b>	<b>3,806</b>	<b>3,308</b>	<b>–</b>	<b>3,308</b>

The Notes relating to the table above are on page 36.

## Reconciliation of consolidated statement of financial position continued

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### Notes:

- 1 Applying IFRS 10 to the Statement of financial position aggregates the line items into the single line item "Investment in investment entities". In the Investment basis we have disaggregated these items to analyse our net assets as if the investment entity subsidiaries were consolidated. The adjustment reclassifies items in the Statement of financial position. There is no change to the net assets, although for reasons explained below, gross assets and gross liabilities are different.

The disclosure relating to portfolio companies is significantly reduced by the aggregation, as the fair value of all investments held by investment entity subsidiaries is aggregated into the "Investments in investment entities" line. We have disaggregated this fair value and disclosed the underlying portfolio holding in the relevant line item, ie, quoted equity investments, unquoted equity investments or loans and receivables.

Other items which may be aggregated are carried interest and other payables, and the Investment basis presentation again disaggregates these items.

- 2 Cash balances held in investment entity subsidiaries are also aggregated into the "Investment in investment entities" line. At 31 March 2015 £3 million (2014 restated: £23 million) of cash was held in subsidiaries that are now classified as investment entity subsidiaries and is therefore included in the "Investment in investment entities" line.
- 3 Intercompany balances between investment entity subsidiaries and trading subsidiaries also impact the transparency of our results under the IFRS basis. If an investment entity subsidiary has an intercompany balance with a consolidated trading subsidiary of the Group, then the asset or liability of the investment entity subsidiary will be aggregated into its fair value, while the asset or liability of the consolidated trading subsidiary will be disclosed as an asset or liability in the Statement of financial position for the Group. Prior to the adoption of IFRS 10, these balances would have been eliminated on consolidation.
- 4 Investment basis financial statements are prepared for performance measurement and therefore reserves are not analysed separately under this basis.



# Reconciliation of consolidated cash flow statement

	Note	Investment basis 2015 £m	IFRS adjustments 2015 £m	IFRS basis 2015 £m	Investment basis 2014 £m	IFRS adjustments (restated) 2014 £m	IFRS basis (restated) 2014 £m
<b>Cash flow from operating activities</b>							
Purchase of investments	1	(474)	358	(116)	(337)	189	(148)
Proceeds from investments	1	841	(571)	270	677	(223)	454
Cash divestment from traded portfolio	1	21	(21)	–	14	(14)	–
Cash inflow from fair value subsidiaries	1	–	272	272	–	62	62
Portfolio interest received	1	26	(12)	14	9	(3)	6
Portfolio dividends received	1	44	(9)	35	44	(19)	25
Portfolio fees received		10	–	10	4	2	6
Fees received from external funds	1	78	(1)	77	75	–	75
Carried interest and performance fees received	1	6	–	6	5	–	5
Carried interest and performance fees paid	1	(13)	(1)	(14)	(25)	10	(15)
Acquisition related earn-out charges paid		(10)	–	(10)	–	–	–
Operating expenses		(117)	1	(116)	(128)	(3)	(131)
Interest received		3	–	3	3	–	3
Interest paid		(54)	–	(54)	(57)	–	(57)
Income taxes paid	1	(5)	–	(5)	(7)	–	(7)
<b>Net cash flow from operating activities</b>		<b>356</b>	<b>16</b>	<b>372</b>	<b>277</b>	<b>1</b>	<b>278</b>
<b>Cash flow from financing activities</b>							
Dividend paid		(183)	–	(183)	(114)	–	(114)
Repayment of short-term borrowings		–	–	–	(164)	–	(164)
Issue of shares		3	–	3	–	–	–
Repurchase of B shares		(6)	–	(6)	–	–	–
Net cash flow from derivatives		9	–	9	(32)	–	(32)
<b>Net cash flow from financing activities</b>		<b>(177)</b>	<b>–</b>	<b>(177)</b>	<b>(310)</b>	<b>–</b>	<b>(310)</b>
<b>Cash flow from investing activities</b>							
Acquisition of management contracts	1	–	–	–	2	(2)	–
Net cash flow from deposits		–	–	–	90	–	90
<b>Net cash flow from investing activities</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>92</b>	<b>(2)</b>	<b>90</b>
<b>Change in cash and cash equivalents</b>	2	<b>179</b>	<b>16</b>	<b>195</b>	<b>59</b>	<b>(1)</b>	<b>58</b>
Cash and cash equivalents at the start of year	2	697	(23)	674	656	(23)	633
Effect of exchange rate fluctuations	1	(12)	4	(8)	(18)	1	(17)
<b>Cash and cash equivalents at the end of year</b>	2	<b>864</b>	<b>(3)</b>	<b>861</b>	<b>697</b>	<b>(23)</b>	<b>674</b>

Notes:

- The Consolidated cash flow statement is impacted by the application of IFRS 10 as cash flows to and from Investment entity subsidiaries are disclosed, rather than the cash flows to and from the underlying portfolio.  
Therefore in our Investment basis financial statements, we have disclosed our cash flow statement on a "look through" basis, in order to reflect the underlying sources and uses of cash flows and disclose the underlying investment activity.
- There is a difference between the change in cash and cash equivalents of the Investment basis financial statements and the IFRS financial statements because there are cash balances held in investment entity subsidiary vehicles. Cash held within investment entity subsidiaries will not be shown in the IFRS statements but will be seen in the Investment basis statements.

# Key risks and mitigations

Effective risk assessment underpins the successful delivery of our strategy. Integrity and responsibility are central to our values at 3i and are embedded in our approach to risk management.

This section explains how we control and manage the risks in our business. It outlines the key risks, our assessment of their potential impact on our business in the context of the current environment and how we mitigate them.

## APPROACH TO RISK GOVERNANCE

The Board seeks to achieve an appropriate balance between taking risk and generating returns for shareholders and is responsible for risk assessment, the risk management process and for the protection of the Group's reputation and brand integrity. It considers the most significant risks facing the Group and uses quantitative analyses, such as the vintage control and weekly liquidity reporting, where appropriate. Non-executive oversight of the risk management process is exercised through the **Audit and Compliance Committee** with respect to standards of integrity, financial reporting, risk management, going concern and internal control. The Audit and Compliance Committee's activities are discussed further in that Committee's report on page 65.

The Board has delegated the responsibility for risk oversight to the **Chief Executive**. He is assisted by the **Group Risk Committee** ("GRC") in managing this responsibility, guided by the Board's appetite for risk and any specific limits set. The GRC maintains the Group risk review, which summarises the Group's principal risks, associated mitigating actions and key risk indicators, and identifies any changes to the Group's risk profile. The risk review is updated quarterly and the Chief Executive provides an update at each Audit and Compliance Committee meeting where the Committee members contribute views and raise questions. The last risk appraisal was completed in early May 2015.

Following the implementation of AIFMD in July 2014, we further augmented risk governance with a separate Risk Management Function. This group meets ahead of the GRC meetings to consider separate risk reports for each AIF managed by the Group, including areas such as portfolio composition, operational updates and team changes, which are then also considered by the GRC.

Assurance on the robustness and effectiveness of the Group's overarching risk management processes and compliance with relevant policies is provided to the Audit and Compliance Committee through the independent assessment by Internal Audit and the work of Group Compliance on regulatory risks.

In addition to the above, a number of other committees contribute to the Group's overall risk governance structure, as set out in the diagram on page 39.



3i Group's Pillar 3 document can be found at [www.3i.com](http://www.3i.com)



## READ MORE

Further information on the Audit and Compliance Committee's activities can be found on page 65

### 3i's RISK GOVERNANCE STRUCTURE

#### Overview of risk management framework and governance structure



## Key risks and mitigations continued

### RISK MANAGEMENT FRAMEWORK

The Group's risk management framework is designed to support the delivery of the Group's strategic objectives.

The key principles that underpin risk management in the Group are:

- The Board and Group Executive Committee promote a culture in which risks are identified, assessed and reported in an open, transparent and objective manner; and
- The over-riding priority is to protect the Group's long-term viability and reputation and produce sustainable, medium to long-term cash-to-cash returns.

Managing the Group's Environmental, Social and Governance risks is central to how we do business and is integral to our risk management framework.

Risk management is embedded within all areas of the business. Members of the Executive Committee have responsibility for their own business areas and the Group expects individual behaviours to mirror the culture and core values of the Group. All employees share the responsibility of upholding 3i's control culture and supporting effective risk management to enable us to deliver our strategy. Senior managers are required to confirm their individual and business area compliance. In addition, all staff are assessed on their awareness of the Group's values and compliance with them as part of their annual appraisal.

In practice, the Group operates a "three lines of defence" framework for managing and identifying risk. The first line of defence against undesirable outcomes is the business function and the respective Managing Partners across Private Equity, Infrastructure and Debt Management. Line management is supported by oversight and control functions such as Compliance, Finance and Legal which constitute the second line of defence. The Compliance monitoring programme reviews the effective operation of our processes in meeting regulatory requirements.

Internal Audit provides retrospective, independent assurance over the operation of controls and is the third line of defence. The internal audit programme includes the review of risk management processes and recommendations to improve the control environment.

### RISK REVIEW PROCESS

The Group risk review process includes the monitoring of key strategic and financial metrics considered to be indicators of potential changes in its risk profile. The review includes, but is not limited to, the following reference data:

- Financial performance and strategic dashboards;
- Vintage control and asset allocation analysis;
- Macroeconomic and M&A market overview;
- Liquidity management;
- Capital adequacy, including stress testing;
- Operating expenses;
- Portfolio performance reports for Private Equity, Infrastructure and Debt Management;
- Risk reports for managed Alternative Investment Funds; and
- Quarterly Group risk log.

In addition to the above, the GRC considers the impact of any changes and developments on its risk profile, strategic delivery and reputation quarterly.

The GRC uses the above to identify a number of key risks. It then evaluates the impact and likelihood of each key risk, with reference to associated measures and key performance indicators. The adequacy of the mitigation plans is then assessed and, if necessary, additional actions are agreed and then reviewed at the subsequent meeting.

A number of focus topics are also agreed in advance of each meeting. In FY2015 the GRC covered topics such as business continuity; cyber and physical security; Responsible Investing ("RI")/Environmental, Social and Governance ("ESG") reporting; investment concentration risk; and the Group's progress on implementing regulatory changes.

There were no significant changes to the Group's approach to risk governance or its operation in FY2015 but we have continued to refine our framework for risk management and reporting further to the implementation of AIFMD and the Group's approach to RI/ESG.



Further details on 3i's approach as a responsible investor are available at [www.3i.com](http://www.3i.com)

## REVIEW OF PRINCIPAL RISKS

The disclosures on the following pages are not an exhaustive list of risks and uncertainties faced by the Group, but rather a summary of those principal risks which are under active review by the GRC and Board, and have the potential to affect materially the achievement of the Group's strategic objectives and impact its financial performance, reputation and brand integrity.

The Group's risk profile and appetite remains broadly stable. While there have been a number of emerging external risks separately identified this year, for example cyber crime, the Group believes that its consistent strategy, institutional approach to investment and strong culture have helped it to maintain its stable risk profile.

### External

The external environment remains challenging. The key economies in which the Group operates are showing signs of recovery against a background of low interest rates and the effects of quantitative easing in the Eurozone. The potential for increased volatility or shocks, however, remains; for example, from increased geopolitical instability. In addition the regulatory environment continues to evolve and conduct of business risk remains in sharp focus.

The Group is subject to a range of additional regulatory and tax reporting requirements. These include the European Alternative Investment Fund Management Directive ("AIFMD"), regulations under the European Market Infrastructure Regulation ("EMIR"), Capital Requirements Directive IV ("CRDIV"), revisions to the Client Asset rules ("CASS") and the introduction of the Foreign Account Tax Compliance Act ("FATCA"). These changes have resulted in a significant increase in reporting requirements, operational complexity and cost to the business. However, they have had limited practical effect on 3i's ability to deliver its strategy. Managing these changes has been a key priority and the subject of regular updates to Executive Committee and the Board. Future developments include possible changes to the international tax system arising from the OECD G20 Base Erosion and Profit Shifting ("BEPS") project.

### Investment

The most significant risks are our ability to source attractive investment opportunities, maximise the value available from our portfolio and manage the timings of exits and cash returns. These risks are closely linked to the economic environment noted above. We continue to focus on sectors and geographies where our expertise and network can drive significant outperformance. The ability to invest and realise successfully and to minimise the risk of issues in the portfolio is also key to maintaining the Group's reputation and networks in its markets.

The Executive Committee actively monitors investments from origination to realisation with robust monthly management information supported by Valuation Committee and Board oversight.

In addition there are a number of risks specific to each business line as follows:

### Private Equity

As the investment portfolio becomes more concentrated, additional steps have been taken to increase the frequency and scope of monitoring of the more material assets. Individual portfolio company failures could have adverse reputational consequences for the Group, even if the value impact is not material.

### Infrastructure

Strong investor demand for yield is challenging the business' ability to maintain investment rates in quality assets. The business is adapting its strategy but remains focused on pursuing new investments while considering fund raising options and inorganic opportunities. Many of the investments in the infrastructure portfolio provide essential services to their community and the rigorous management of their performance is therefore critical.

### Debt Management

The principal risk is the ability to grow AUM profitably, in line with its business plan. The business is also exposed to potential volatility in the fixed income markets and the effects of regulatory changes, including the Risk Retention and Volcker rules (effective from 2016 and 2017 respectively) which will impact the structure of the US CLO funds. Specifically, during the warehouse phase of establishing CLOs, we are exposed to market volatilities and potential for further capital calls.







### Operational

The key areas of potential operational risk include the loss of key people and whether the investor skill sets and business development capabilities can support the Group's strategic delivery. Detailed resource plans are in place at the business line level and the Board conducts an annual review of the Group's organisational capability and succession assessment. The last review was conducted in September 2014.




The GRC also received regular updates on regulation, currency risk and cyber security. In response to the growing threat posed by cyber crime, we conducted a detailed review of the threat posed by the external environment, the adequacy of the Group's internal control framework and our ability to respond to such an event. The Group also conducted a review of its business continuity capabilities. The findings and proposed enhancements were discussed and are being implemented across the Group.



## Key risks and mitigations continued

Key risk factors	Consequences	Risk mitigation	2015 outcome
<b>EXTERNAL</b>			
<b>Economic stability and vulnerability to weaker growth</b>	 <ul style="list-style-type: none"> <li>Limited growth or reduction in NAV owing to contraction of earnings and/or valuation multiples in Private Equity or Infrastructure</li> <li>Impact on investment rates and realisations</li> </ul>	<ul style="list-style-type: none"> <li>Monthly portfolio monitoring to address any portfolio issues promptly</li> <li>Weekly monitoring of liquidity and balance sheet</li> </ul>	<ul style="list-style-type: none"> <li>GIR good at 23%</li> <li>Gearing has reduced to nil</li> </ul>
<b>Significant geopolitical uncertainty; for example in Eastern Europe</b>	 <ul style="list-style-type: none"> <li>Impacts general market confidence and lowers risk appetite</li> <li>Leads to economic instability and lower growth</li> </ul>	<ul style="list-style-type: none"> <li>Regular assessment of exposures to geopolitical risk across the Group's investment portfolio and investment pipeline</li> </ul>	<ul style="list-style-type: none"> <li>Despite increased instability, the direct impact on 3i and its Private Equity portfolio companies has been limited</li> </ul>
<b>Significant currency movements and volatility</b>	 <ul style="list-style-type: none"> <li>Unhedged foreign exchange rate movements impact total return and NAV</li> <li>May impact portfolio performance</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring of asset exposures by currency</li> <li>Regular sensitivity analysis</li> <li>Specific short-term hedging on entry or exit of investments considered on a case by case basis</li> <li>Monitoring at portfolio company level</li> </ul>	<ul style="list-style-type: none"> <li>FX impact on NAV has been significant although remains primarily unrealised</li> <li>FX exposures at the portfolio company level have been monitored through existing asset management processes</li> </ul>
<b>Increased volatility in equities and fixed income markets</b>	 <ul style="list-style-type: none"> <li>Increases risks with IPO exit route</li> <li>Potential for large market correction to impact valuations and performance</li> </ul>	<ul style="list-style-type: none"> <li>Focus on exit pipeline and refinancing strategies</li> <li>Close monitoring of Private Equity performance and valuations and capital at risk in Debt Management</li> </ul>	<ul style="list-style-type: none"> <li>Number of successful IPOs completed (eg Refresco Gerber/Eltel)</li> <li>Increased quoted asset exposure; 20% of portfolio, but largest exposure being 3iN</li> <li>Increased use of adjusted multiples for unquoted Private Equity valuations</li> </ul>
<b>Subdued M&amp;A activity and high pricing in 3i's core markets</b>	 <ul style="list-style-type: none"> <li>Investment and realisation levels fall</li> <li>Reduces capacity to invest and pay enhanced shareholder distributions</li> <li>Lack of primary deal flow in the US and European CLO market</li> </ul>	<ul style="list-style-type: none"> <li>Active management of exit strategies by Investment Committee to adapt to market conditions</li> <li>Regular monitoring of new investment work in progress and market activity</li> </ul>	<ul style="list-style-type: none"> <li>Invested in four new Private Equity assets and advised on one Core infrastructure investment</li> <li>Strong exit market has enabled the Group to dispose of a number of non-core assets</li> </ul>
<b>Impact of new regulations on 3i's new and existing business</b>	 <ul style="list-style-type: none"> <li>Regulatory constraints on possible future business development and increased operating costs</li> <li>Complexity increases risk of non-compliance, with possible financial or reputational consequences</li> </ul>	<ul style="list-style-type: none"> <li>Process to evaluate business impact for new investments and business initiatives</li> <li>New processes, procedures and additional resource introduced to support compliance</li> <li>Increased monitoring and supervision by senior management in initial implementation phase</li> </ul>	<ul style="list-style-type: none"> <li>The changes to the UK and EU regulatory and tax regimes have led to additional reporting requirements, operational complexity and cost to the Group and we expect this to continue in 2016.</li> <li>No practical limit, at present, on ability to deliver strategy</li> </ul>

## KEY

-  Risk exposure has increased
-  No significant change in risk exposure
-  Risk exposure has reduced

Key risk factors		Consequences	Risk mitigation	2015 outcome
<b>INVESTMENT</b>				
<b>Investment rate or quality is lower than expected</b>	↓	<ul style="list-style-type: none"> <li>■ Impacts longer-term returns</li> <li>■ Impairs ability to raise new funds or attract new capital</li> <li>■ Affects the Group's reputation and ability to operate</li> </ul>	<ul style="list-style-type: none"> <li>■ Management focus on building investment pipeline</li> <li>■ Early involvement of Investment Committee to identify key targets</li> <li>■ Regular review of vintage control and asset allocation</li> </ul>	<ul style="list-style-type: none"> <li>■ Four new Private Equity investments completed</li> <li>■ Infrastructure investment rate limited in competitive market</li> </ul>
<b>Portfolio performance is weak or is impacted by a significant environmental, social or governance incident</b>	↓	<ul style="list-style-type: none"> <li>■ Reduction in NAV and realisation potential</li> <li>■ Increased covenant risk in weaker companies</li> <li>■ Impairs track record for fundraising purposes</li> </ul>	<ul style="list-style-type: none"> <li>■ Monthly portfolio monitoring to address any portfolio issues promptly</li> <li>■ Active management of new Chairman and CEO appointments</li> <li>■ Regular review of key Environmental, Social and Governance risks in portfolio</li> </ul>	<ul style="list-style-type: none"> <li>■ Good earnings growth of 19%</li> <li>■ Refined approach to RI/ESG investing</li> </ul>
<b>Ability to grow Debt Management AUM profitably and generate value accretive returns</b>	↓	<ul style="list-style-type: none"> <li>■ Inability to meet externally communicated targets on revenue and growth</li> <li>■ Affects investors' confidence in the business</li> </ul>	<ul style="list-style-type: none"> <li>■ Regular review of progress against business plan</li> <li>■ Review and development of the economics of the business and operating model</li> <li>■ Investment Committee review of new products, fund raising commitments and other proposals</li> </ul>	<ul style="list-style-type: none"> <li>■ Launched six new CLOs in the year</li> <li>■ First close of European Mid-Market Lending Fund at €250m</li> <li>■ Increased the size of US Senior Loan Fund to \$157m</li> </ul>
<b>OPERATIONAL</b>				
<b>Exposure to the loss of key people</b>	↔	<ul style="list-style-type: none"> <li>■ Potential to undermine investor and/or shareholder confidence</li> <li>■ Inability to deliver strategic plan</li> </ul>	<ul style="list-style-type: none"> <li>■ Formal review of organisational capability and succession planning</li> <li>■ Annual remuneration review</li> </ul>	<ul style="list-style-type: none"> <li>■ Board review in September 2014</li> <li>■ A number of key people changes have been managed satisfactorily</li> </ul>
<b>Organisational development, for example people or systems changes</b>	↓	<ul style="list-style-type: none"> <li>■ Poor execution of strategic changes impacts delivery of stated targets</li> </ul>	<ul style="list-style-type: none"> <li>■ Project governance and management, including detailed risk assessment and mitigation planning</li> <li>■ Regular progress reports to Executive Committee</li> </ul>	<ul style="list-style-type: none"> <li>■ Successful implementation of new Private Equity accounting system</li> </ul>
<b>Increase in cyber security threats</b>	↑	<ul style="list-style-type: none"> <li>■ Potential loss of operation of core systems or sensitive data</li> <li>■ Disruption to our business and that of our portfolio companies</li> </ul>	<ul style="list-style-type: none"> <li>■ Periodic cyber security risk assessment and IT penetration testing</li> <li>■ Update of information security policies, incident management processes and staff training</li> </ul>	<ul style="list-style-type: none"> <li>■ Business continuity plans reviewed</li> <li>■ Cyber security framework assessed and remedial actions identified</li> </ul>



#### READ MORE

Further information on Private Equity, and Infrastructure and Debt Management can be found on pages 15 to 20



#### READ MORE

Further information on the Audit and Compliance Committee's report can be found on page 65

# Corporate responsibility

3i is committed to acting as a responsible company, a responsible employer and a responsible investor. We take responsibility for our actions, carefully consider how others will be affected by our choices and ensure that our values and ethics are integrated into our formal business policies, practices and plans.

## A RESPONSIBLE COMPANY

### Governance

Good corporate governance is fundamental to 3i and its activities and is critical to the delivery of value to our stakeholders. For full details of our governance structure and processes, please see the Corporate governance section of this report and visit the Governance section of our website at [www.3i.com](http://www.3i.com).

### Transparency

As a publicly-listed company, 3i operates within a framework of formal legal and regulatory disclosure requirements as well as meeting the high expectations for transparency of our shareholders, fund investors, staff and the media. We are committed to communicating both our financial and non-financial performance in a clear, open and comprehensive manner.

### Anti-bribery and corruption

3i does not offer, pay or accept bribes and we only work with third parties whose standards of business integrity are substantively consistent with ours. We expect the businesses we invest in to operate in compliance with all applicable laws and regulations and, where appropriate, work towards meeting relevant international standards where these are more stringent. This includes, in particular, upholding high standards of business integrity, avoiding corruption in all its forms and complying with applicable anti-bribery, anti-fraud and anti-money laundering laws and regulations.

### Environmental impact

In the year to 31 March 2015 our measured Scope 1 and 2 emissions were 411.8 tonnes CO<sub>2</sub>e. This comprised:

Scope	Emissions source	CO <sub>2</sub> e emissions (tonnes) for year to 31 March 2015	CO <sub>2</sub> e emissions (tonnes) for year to 31 March 2014
1	Combustion of fuel and operation of our facilities	12.6	28.0
2	Electricity, heat, and cooling purchased for our own use	399.2	358.2
<b>Total</b>		<b>411.8</b>	<b>386.2</b>

This equates to 1.52 tonnes CO<sub>2</sub>e per employee for the year to 31 March 2015 (2014: 1.39 tonnes CO<sub>2</sub>e per employee), based on an average number of employees during the year of 271 (2014: 277 employees).

We have restated the emissions figures for the year to 31 March 2014 to reflect improved data collection and analysis techniques which allows a more accurate comparison between 2014 and 2015. Our total Scope 1 and 2 emissions have increased by 6.6% due principally to better data coverage as well as an increase in overall emissions from electricity usage due to business growth.

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. These sources fall within our consolidated financial statements.

We quantify and report our organisational greenhouse gas emissions according to the Greenhouse Gas Protocol and Defra's Environmental Reporting Guidelines. Results are reported in tCO<sub>2</sub>e although Scope 2 emissions for overseas electricity have been calculated in tCO<sub>2</sub> as the UK Government's overseas electricity emissions factors currently account for CO<sub>2</sub> emissions only. Emissions for all of our sites have been included and we have chosen to exclude fugitive Scope 1 emissions from a cooling unit located at our London office as it is considered immaterial to our overall footprint. The greenhouse gas sources that constitute our operational boundary are:

- Scope 1: natural gas combustion within boilers; and
- Scope 2: purchased electricity for own use.

In some cases, missing data has been estimated using either extrapolation of available data or data from the previous year as a proxy. We have worked with Carbon Credentials Energy Services to verify our greenhouse gas emissions.

3i also reports its greenhouse gas emissions and climate change data to the Carbon Disclosure Project.

### Community

We focus our charitable activities on the disadvantaged, on young people and on education. Charities are supported on the basis of their effectiveness and impact and we also support staff giving and sponsorship through matching donations. Our charitable giving for the year to 31 March 2015 totalled £255,000.

## A RESPONSIBLE EMPLOYER

### Graduate scheme

We are proud to have launched our new graduate recruitment scheme during the year which is designed to develop our next generation of world-class investment professionals and business leaders. Following a rigorous process, we selected five high-quality graduates from across Europe and a variety of disciplines to join us in September 2015. The programme will consist of comprehensive and high quality training followed by rotations through each of our Private Equity, Infrastructure and Debt Management businesses as well as our Strategy and Finance teams. The top performers will be fast-tracked into the business in April 2018.



For full details of 3i's approach, including details of relevant 3i policies, please visit the CR section of our website at [www.3i.com](http://www.3i.com).

## Human rights

Whilst 3i does not have a formal human rights policy, our policies are consistent with internationally-proclaimed human rights principles. In particular, 3i is an equal opportunities employer and has clear grievance and disciplinary procedures, an employee assistance programme and an independent, external “whistle blowing” hotline service.

3i is committed to ensuring that the businesses we invest in comply with all applicable laws in relation to their employees (amongst other things) and, where appropriate, that they work towards meeting relevant international standards (such as the ILO Fundamental Conventions) where these are more stringent. Summaries of relevant 3i policies, including our policies on people, recruitment and selection, equal opportunities and diversity, health and safety and responsible investment are available at [www.3i.com](http://www.3i.com).

3i is an accredited London Living Wage Employer. This means that every member of staff based in London, including contracted maintenance and reception teams, earns a “living wage” which is an hourly rate higher than the UK minimum wage and is set independently, updated annually and based on the cost of living in the UK.

At 31 March 2015, 3i had a total of 276 employees (calculated under the investment basis) and this is how they broke down by gender:

	Number	Male	Female
All 3i employees	276	169	107
3i Group plc Directors <sup>1</sup>	8	5	3
Senior managers <sup>2</sup>	47	39	8

1 Includes non-executive Directors who are not 3i employees.

2 “Senior managers” excludes Simon Borrows and Julia Wilson (who are included as Directors of 3i Group plc) and includes 28 people who were directors of undertakings included in the consolidation, of whom 26 are male and two are female.

## A RESPONSIBLE INVESTOR

We are signatories to the UN Principles for Responsible Investment and have a clear and comprehensive Responsible Investment policy which is embedded into our new investment and portfolio monitoring processes.

3i Group plc has again been selected as an index component of the Dow Jones Sustainability Indices (DJSI).

By order of the Board  
**Simon Borrows**  
 Chief Executive  
 13 May 2015

### Case study:

## The Passage

**3i has supported The Passage for over five years and is currently supporting the Employment Training and Welfare Rights department**

The Passage is a UK charity which aims to provide homeless people in London with support to transform their own lives by providing homelessness prevention projects, resource centre services, outreach services, hostel accommodation and supported semi-independent accommodation.

Our donation funds the Employment Training and Welfare Rights (“ETWR”) Department which provides The Passage’s clients with support to find a way back into employment as well as to explore training and educational options.

During 2014, 390 homeless or insecurely housed people visited the ETWR Department. The majority of clients received benefit advice, life skills and IT skills training, with 57 finding regular work.

The ETWR department also operates a work club which helps clients look for work and overcome obstacles such as a lack of relevant IT skills, given so many jobs are now advertised online. To that end, the ETWR department carried out 1,410 internet job search sessions with clients. In addition, the work club helped 15 clients prepare and study for the Construction Skills Certification Scheme, supported three clients who undertook work trials with local employers in order to get used to being at work after long periods of unemployment, and assisted 17 clients who took part in voluntary work.



Further details of 3i’s approach as a responsible investor, including a summary of our Responsible Investment policy, are available at [www.3i.com](http://www.3i.com).

3i is a member of the Dow Jones Sustainability World Index.

MEMBER OF  
**Dow Jones Sustainability Indices**  
 In Collaboration with RobecoSAM

FTSE Group confirms that 3i has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group, FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognised corporate responsibility standards. Companies in the FTSE4Good Index Series have met stringent environmental, social and governance criteria, and are positioned to capitalise on the benefits of responsible business practice.



FTSE4Good

# Corporate Governance

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# Governance

## CHAIRMAN'S INTRODUCTION

**“Robust and effective governance is critical to the successful delivery of value to the Group’s stakeholders.”**

**Sir Adrian Montague**  
Chairman



This section of the report describes how 3i is governed and managed. It gives details on our Board and Executive Committee members and explains how the Board is organised and operates. It also explains the roles and composition of Board Committees and the division of responsibilities between the Directors, including between the Chairman and Chief Executive. This section also includes the Directors’ remuneration report, the Audit and Compliance Committee report and the Valuations Committee report.

Good corporate governance is fundamental to 3i and its activities. Governance and oversight of the Group’s business model and strategy are critical to the delivery of value to the Group’s stakeholders.

This is more important than ever given the volatile and uncertain economic and political environment and the changing regulatory landscape that our sector faces.

The Board is responsible to shareholders for the overall management and oversight of the Group and for its long-term success. In particular, the Board is responsible for agreeing the Group’s strategy, monitoring financial performance, setting and monitoring the Group’s risk appetite and maintaining an effective system of internal controls.

It is the Board’s responsibility to ensure that the Group has a clear strategy and that the necessary people, resources and structures are in place to support the delivery of this strategy.

A handwritten signature in blue ink, appearing to read 'Adrian Montague'.

**Sir Adrian Montague**  
Chairman

# Board of Directors and Executive Committee

## BOARD OF DIRECTORS



**Sir Adrian Montague**  
**Chairman (until 25 June 2015)**

Chairman since 2010. Chairman of Aviva plc, The Manchester Airports Group plc and The Point of Care Foundation charity. A non-executive director of CellMark AB.

**Previous experience**

Chairman of Anglian Water Group, Michael Page International plc, London First, Friends Provident PLC, British Energy Group PLC, Cross London Rail Links Ltd (Crossrail) and Deputy Chairman of Network Rail and the UK Green Investment Bank plc. A non-executive director of Skanska AB.



**Simon Thompson**  
**Chairman Designate**

Non-executive Director since April 2015 and appointed Chairman with effect from close of 2015 AGM. Chairman of Tullow Oil plc and non-executive director of Rio Tinto plc. Also, until 14 May 2015, Senior Independent director of Amec Foster Wheeler plc.

**Previous experience**

Formerly a non-executive director of Sandvik AB. Executive director at Anglo American plc where he became executive director and chairman of Tarmac Group. Director of AngloGold Ashanti Ltd and Newmont Mining Corporation. Previous career in investment banking with N M Rothschild and S.G. Warburg.



**Simon Borrows**  
**Chief Executive**

Chief Executive since May 2012, and an Executive Director since he joined 3i in October 2011. Chairman of the Group Risk Committee, the Executive Committee and the Group's Investment Committee. Member of the Supervisory Board of Peer Holding B.V., the Dutch holding company for the Group's and 3i Eurofund V's investment in Action. Also a non-executive director at The British Land Company PLC and, until 21 May 2015, Inchcape plc.

**Previous experience**

Formerly Chairman of Greenhill & Co International LLP, having previously been Co-Chief Executive Officer of Greenhill & Co, Inc. Before founding the European operations of Greenhill & Co in 1998 he was the Managing Director of Baring Brothers International Limited.



**Julia Wilson**  
**Group Finance Director**

Group Finance Director and member of the Executive Committee since 2008. A member of the Group's Investment Committee since July 2012. Joined 3i in 2006 as Deputy Finance Director, with responsibility for the Group's finance, taxation and treasury functions. Also a non-executive director at Legal & General Group Plc.

**Previous experience**

Group Director of Corporate Finance at Cable & Wireless plc.



**Jonathan Asquith**

Deputy Chairman since April 2015 and Senior Independent Director since July 2014. Non-executive Director since 2011. Chairman of Citibank International Limited, Citigroup Global Markets Limited and Dexion Capital plc.

**Previous experience**

Chairman of AXA Investment Managers (to 2014). Non-executive director of Ashmore Group plc. Director of Schroders plc from 2002 to 2008, during which time he was Chief Financial Officer and later Vice-Chairman. Previously spent 18 years in investment banking with Morgan Grenfell and Deutsche Bank.



**Caroline Banszky**

Non-executive Director since July 2014. The Managing Director of the Law Debenture Corporation p.l.c. since 2002.

**Previous experience**

Chief Operating Officer of SVB Holdings PLC, now Novae Group PLC, a Lloyd's listed integrated vehicle from 1997 to 2002. Previously Finance Director of N.M. Rothschild & Sons Limited from 1995 to 1997, having joined the bank in 1981. She originally trained with what is now KPMG.



**Alistair Cox**

Non-executive Director since 2009. Chief Executive of Hays plc since 2007.

**Previous experience**

Chief Executive of Xansa plc from 2002 to 2007, and Regional President of Asia and Group Strategy Director at Lafarge (formerly Blue Circle Industries) between 1994 and 2002.



**David Hutchison**

Non-executive Director since November 2013. Chief Executive of Social Finance Limited and a non-executive director of the Start-Up Loans Company.

**Previous experience**

Until 2009 Head of UK Investment Banking at Dresdner Kleinwort Limited and a member of its Global Banking Operating Committee.



**Martine Verluyten**

Non-executive Director since January 2012. A non-executive director of Thomas Cook Group plc, STMicroelectronics NV and Groupe Bruxelles Lambert.

**Previous experience**

Chief Financial Officer of Umicore, a Brussels-based listed materials technology group, from 2006 to December 2011. Before joining Umicore was Group Controller and then Chief Financial Officer of Mobistar.

## EXECUTIVE COMMITTEE



### Menno Antal

Managing Partner,  
Private Equity

A member of the Executive Committee and the Group's Investment Committee since 2010.

#### Previous experience

Joined 3i in 2000 and Managing Director, Benelux, since 2003. Prior to joining 3i, held a broad range of international managerial positions within Heineken.



### Kevin Dunn

General Counsel, Company Secretary and Head of Human Resources

Responsible for 3i's legal, compliance, internal audit, human resources and company secretarial functions. A member of the Executive Committee since joining 3i in 2007.

#### Previous experience

Prior to joining 3i, was a Senior Managing Director, running GE's European Leveraged Finance business after serving as European General Counsel for GE. Prior to GE, was a partner at the law firms Travers Smith and Latham & Watkins.



### Jeremy Ghose

Managing Partner and CEO of 3i Debt Management

A member of the Executive Committee and Chairman of the Debt Management Investment Committee since joining 3i in 2011 on 3i's acquisition of Mizuho Investment Management (UK) Limited from Mizuho Corporate Bank.

#### Previous experience

Prior to joining 3i, was with Mizuho Corporate Bank (formerly The Fuji Bank) since 1988 and on its executive board since 2005. Founder of Mizuho's Leveraged Finance business in 1988 and of the third-party independent debt fund management business in 2005.



### Alan Giddins

Managing Partner,  
Private Equity

A member of the Executive Committee and the Group's Investment Committee since 2010.

#### Previous experience

Joined 3i in 2005. Prior to joining 3i, spent 13 years in investment banking, latterly as a Managing Director at Société Générale. Qualified as a chartered accountant with KPMG.



### Ben Loomes

Managing Partner,  
Infrastructure and Group Strategy Director

A member of the Executive Committee and the Group's Investment Committee since 2012.

#### Previous experience

Joined 3i in April 2012. Prior to joining 3i, experience included mergers and acquisitions, financing advisory and restructuring, including roles at Goldman Sachs, Greenhill & Co and Morgan Stanley.



### Phil White

Managing Partner,  
Infrastructure

A member of the Executive Committee and the Group's Investment Committee since February 2014.

#### Previous experience

Joined 3i in 2007. Prior to joining 3i, experience in infrastructure investment, advisory and financing, including roles at Macquarie, WestLB and Barclays.

# Board and Committees

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## BOARD AND COMMITTEES STRUCTURE

The Board is responsible for ensuring that there is an effective organisational and reporting structure in place such that there are clear reporting lines within the Group and well defined roles and responsibilities. This is to ensure that the right decisions are being made with involvement from the right people.

The Board is assisted by various Principal Committees of the Board which report regularly to the Board. The Board committee structure is outlined on page 51. The membership of these Committees is regularly reviewed by the Board. When considering Board Committee membership and chairmanship, the Board aims to ensure that undue reliance is not placed on particular Directors.

These Board Committees have clearly defined terms of reference. The terms of reference of the Audit and Compliance Committee, the Nominations Committee, the Remuneration Committee and the Valuations Committee are available at [www.3i.com](http://www.3i.com).

Day-to-day management of the Group is the responsibility of the Chief Executive. To assist him in this role, the Chief Executive has established a number of additional Committees. These are also outlined on page 51.

## HOW THE BOARD OPERATES

The Chairman leads the Board and ensures its effectiveness. He also organises its business and sets its agenda. In addition to the Chairman, there are currently six independent non-executive Directors who have a range of strong and complementary skills.

Attendance at meetings of the Board and its Principal Committees during the last year is shown on page 58. Before each Board and Committee meeting, relevant reports and papers, including financial performance data and detailed updates on the progress and implementation of the strategic plan where appropriate, are circulated to Directors. The Board has the opportunity to discuss these reports and updates and to challenge directly the Executive Directors and other senior management, who attend all or part of the Board meetings where relevant.

The key responsibilities and areas of focus for the Board are:

- **Strategy** – contribute to the development of, and agree, the Group's strategy. This includes through review and discussion of reports and updates at Board meetings as well as through the annual strategy review meeting which is attended by the Board and, where relevant, members of the Executive Committee.
- **Group financial and operational performance** – review and monitor the performance of the Group, including through regular reporting and discussions with the Executive Committee and other senior management.
- **Senior management** – ensure that the Executive Committee has the skills and resources to deliver the strategy and that appropriate succession and contingency planning is in place.
- **Evaluation and composition** – review the performance of the Board and its Committees to ensure that they are effective. Ensure that the Board and its Committees comprise competent and capable individuals with a range of skills and experience who bring independent views to the decisions being made.
- **Internal controls** – maintain an appropriate internal control framework.
- **Risk** – ensure that there are effective risk management policies and processes in place and an appropriate governance structure.

The Board has a formal schedule of matters reserved to it and its duly authorised Committees for decision. This is described on page 57. Matters delegated by the Board to management include implementation of the Board approved strategy, day-to-day management and operation of the business, the appointment and remuneration of staff below the Executive Committee and the formulation and implementation of risk management policies and processes.

## OVERVIEW OF COMMITTEES OF THE BOARD AND CHIEF EXECUTIVE

## 3i GROUP PLC BOARD

## PRINCIPAL BOARD COMMITTEES

Audit and Compliance Committee	Remuneration Committee	Nominations Committee	Valuations Committee
<b>Financial reporting, risk and internal controls</b>	<b>Director and senior management remuneration and Group remuneration structure</b>	<b>Board appointments, and size, balance and composition of the Board</b>	<b>Valuation policy and investment valuations</b>
Caroline Banzsky (Chairman) Jonathan Asquith Alistair Cox	Jonathan Asquith (Chairman) Alistair Cox David Hutchison	Sir Adrian Montague (Chairman) Jonathan Asquith Caroline Banzsky Alistair Cox David Hutchison Simon Thompson Martine Verluyten	David Hutchison (Chairman) Sir Adrian Montague Simon Borrows Martine Verluyten Julia Wilson

In addition to its Principal Committees, the Board also has a number of other standing Committees established to consider specific items of business on an ad hoc basis as required. These include the Treasury Transactions Committee and the Brand and Values Committee.

## CHIEF EXECUTIVE

## CHIEF EXECUTIVE COMMITTEES

Executive Committee	Investment Committee	Group Risk Committee	Conflicts Committee
<b>Principal decision-making body in respect of managing the business</b>	<b>Acquisition, management and disposal of investments</b>	<b>Oversees the Group's risk management framework</b>	<b>Independent review of conflict issues</b>
Simon Borrows (Chairman) Menno Antal Kevin Dunn Jeremy Ghose Alan Giddins Ben Loomes Phil White Julia Wilson	Simon Borrows (Chairman) Menno Antal Alan Giddins Ben Loomes Ian Lobley Phil White Julia Wilson	Simon Borrows (Chairman) Menno Antal Kevin Dunn Jeremy Ghose Alan Giddins Ben Loomes Phil White Julia Wilson Director, Group Compliance Director, Internal Audit	Kevin Dunn (Chairman) Ben Loomes Julia Wilson

## DIVISION OF RESPONSIBILITIES

The Board approved division of responsibilities between the Directors is summarised below.

Role of the Chairman	Role of the Chief Executive	Role of non-executive Directors
<ul style="list-style-type: none"> <li>■ Leads the Board in setting its agenda, agreeing strategy, monitoring financial and operational performance, and establishing the Group's risk appetite.</li> <li>■ Responsible for organising the business of the Board, ensuring its effectiveness, and maintaining an effective system of internal controls.</li> <li>■ Ensures that non-executive Directors receive relevant and accurate information to facilitate an open and effective discussion. This includes ensuring that the non-executive Directors receive regular reports on shareholders' views on the Group.</li> <li>■ Responsible for the composition of the Board and facilitates the effective contribution of non-executive Directors and constructive relations between Executive and non-executive Directors.</li> </ul>	<ul style="list-style-type: none"> <li>■ Direct charge of the Group on a day-to-day basis and is accountable to the Board for the financial and operational performance of the Group.</li> <li>■ Leads the Executive Committee to develop and implement the Group's strategy and manage risk and the internal control framework.</li> <li>■ Chairs the Investment Committee to review the acquisition, management and disposal of investments.</li> <li>■ Reports to the Board on financial and operational performance and progress in delivering the strategic objectives.</li> <li>■ Regularly engages with shareholders and other key stakeholders on the Group's activities and progress.</li> </ul>	<ul style="list-style-type: none"> <li>■ Scrutinise the performance of management in meeting agreed objectives and monitor the reporting of performance.</li> <li>■ Seek assurance on the integrity of the financial information and that financial controls and systems of risk management are robust and defensible.</li> <li>■ Determine appropriate levels of remuneration for Executive Directors and Executive Committee and have a prime role in appointing Directors and in succession planning.</li> <li>■ Constructively challenge and help develop proposals on strategy; this occurs at meetings of the Board, and in particular at the annual review meeting to discuss ongoing strategy, the most recent of which took place in December 2014.</li> </ul>

## EFFECTIVENESS

During the year, the Board conducted its annual evaluation of its own performance and that of its Committees and individual Directors. On this occasion, the process was led by the Chairman and conducted internally; the performance evaluation had been externally facilitated two years previously by Dr Tracy Long of Boardroom Review Limited. The Chairman held one-on-one discussions informed by a checklist with all Directors and the Company Secretary. The results of the evaluation process were reported to, and discussed by, the Board. In addition, the Chairman provided individual feedback to Directors.

The evaluation included consideration of the overall composition of the Board including plans for non-executive Director succession over time. Directors identified the backgrounds and experiences which would be desirable in future non-executive Directors to complement the Board's existing skills. The recent Board meeting held in

Amsterdam combined with visits to investee companies was judged to have been valuable to non-executive Directors and it was decided to hold further Board meetings in non-UK locations in future. Directors identified for further consideration specific topics which they believed would be particularly relevant to the Group in the coming year.

Following enhancements to Board processes made in the previous year, suggestions were made for further improvements. These included plans to improve the way in which the Board as a whole could engage more fully in and support the work of Valuations Committee and Remuneration Committee.

In his role as Senior Independent Director, Mr J P Asquith led a review by the Directors of the performance of the Chairman and subsequently reported back to the Board and provided feedback to the Chairman.



# Statutory and corporate governance information

## INVESTMENT POLICY

The UK Listing Authority's Listing Rules require 3i, as a closed-ended investment fund, to publish an investment policy. Shareholder approval is required for material changes to this policy. Non-material changes can be made by the Board. The current investment policy is set out below.

### Investment policy

- 3i is an investment company which aims to provide its shareholders with quoted access to private equity, infrastructure and debt management investment returns. Currently, its main focus is on making quoted and unquoted equity and/or debt investments in businesses and funds across Europe, Asia and the Americas. The geographies, economic sectors, funds and asset classes in which 3i invests continue to evolve as opportunities are identified. Proposed investments are assessed individually and all significant investments require approval from the Group's Investment Committee. Overall investment targets are subject to periodic reviews and the investment portfolio is also reviewed to monitor exposure to specific geographies, economic sectors and asset classes.
- 3i seeks to diversify risk through significant dispersion of investments by geography, economic sector, asset class and size as well as through the maturity profile of its investment portfolio.
- Although 3i does not set maximum exposure limits for asset allocations, it does have a maximum exposure limit that, save as mentioned below, no investment will be made unless its cost does not exceed 15% of the investment portfolio value as shown in the last published valuation. A further investment may be made in an existing investee company provided the aggregate cost of that investment and of all other investments in that investee company does not exceed 15% of the investment portfolio value as shown in the last published valuation. A higher limit of 30% will apply to the Company's investment in 3i Infrastructure plc. For the avoidance of doubt, 3i may retain an investment even if its carrying value is greater than 15% or 30% (as the case may be) of the portfolio value at the time of an updated valuation.
- Investments are generally funded with a mixture of debt and shareholders' funds with a view to maximising returns to shareholders, whilst maintaining a strong capital base. 3i's gearing depends not only on its level of debt, but also on the impact of market movements and other factors on the value of its investments. The Board takes this into account when, as required, it sets a precise maximum level of gearing. The Board has therefore set the maximum level of gearing at 150% and has set no minimum level of gearing. If the gearing ratio should exceed the 150% maximum limit, the Board will take steps to reduce the gearing ratio to below that limit as soon as practicable thereafter. 3i is committed to achieving balance sheet efficiency.

## TAX AND INVESTMENT COMPANY STATUS

The Company is an investment company under section 833 of the Companies Act 2006. HM Revenue & Customs has approved the Company as an investment trust under section 1158 of the Corporation Tax Act 2010 and the Company directs its affairs to enable it to continue to remain so approved.

## REGULATION AND MANAGEMENT ARRANGEMENTS

3i Investments plc, 3i Debt Management Investments Limited, 3i BIFM Investments Limited, 3i Europe plc and 3i Nordic plc, all of which are subsidiaries of the Company, are authorised and regulated by the Financial Conduct Authority ("FCA") under the Financial Services and Markets Act 2000. Where applicable, certain Group subsidiaries' businesses outside the United Kingdom are regulated locally by relevant authorities.

3i Investments plc acts as investment manager to the Company and certain of its subsidiaries. Contracts for these investment management and other services, for which regulatory authorisation is required, provide for fees based on the work done and costs incurred in providing such services. These contracts may be terminated by either party on reasonable notice.

3i plc provides the Group with certain corporate and administrative services, for which no regulatory authorisation is required, under contracts which provide for fees based on the work done and costs incurred in providing such services together with a performance fee based on realised profits on the sale of assets.

3i Investments plc is authorised by the FCA to, among other things, manage Alternative Investment Funds ("AIFs"). It is currently the Alternative Investment Fund Manager ("AIFM") of four AIFs, namely, 3i Group plc, 3i Growth Capital Fund, 3i Eurofund V and the 3i European Middle Market Loan Fund. In compliance with regulatory requirements, 3i Investments plc has ensured that a depository has been appointed for each AIF. This is Citibank International Limited. The Annual report and accounts meet the investor reporting requirements as set out in FUND 3.2.2R, 3.2.3R, 3.2.5R and 3.2.6R of the FCA's Investment Funds sourcebook for 3i Group plc as a standalone entity. The Company's profit for the year is stated in its Statement of changes in equity and its Financial position is shown on page 88. The Company performs substantially all of its investment related activities through its subsidiaries and therefore the Group's consolidated Statement of comprehensive income is considered to be more useful to investors than a Company statement.

Furthermore, in some instances the relevant FUND disclosures have been made in relation to the Group on a consolidated basis rather than in respect of 3i Group plc as a standalone entity. This is because 3i Group plc, as a standalone entity, operates through its group subsidiaries and therefore reporting on the Group's activities provides more relevant information on the Company and its position. There have been no material changes to the Company's operations in the past year.

Although the disclosures required by FUND 3.2.2R, 3.2.3R, 3.2.5R and 3.2.6R of the FCA's Investment Funds sourcebook are covered in this Annual report they are also, for convenience, summarised on the 3i website at [www.3i.com](http://www.3i.com). This will be updated as required and changes noted in future Annual reports.

## RESULTS AND DIVIDENDS

Total comprehensive income for the year was £659 million (2014: £478 million). An interim dividend of 6.0p (comprising a base dividend of 2.7p and an additional dividend of 3.3p) per ordinary share in respect of the year to 31 March 2015 was paid on 7 January 2015. The Directors recommend a final dividend of 14.0p (comprising a base dividend of 5.4p and an additional dividend of 8.6p) per ordinary share be paid in respect of the year to 31 March 2015 to shareholders on the Register at the close of business on 19 June 2015.

The trustee of The 3i Group Employee Trust ("the Employee Trust") has waived (subject to certain minor exceptions) dividends declared on shares in the Company held by the Employee Trust and the Trustee of The 3i Group Share Incentive Plan has waived dividends on unallocated shares in the Company held by it.

## SHARE CAPITAL AND DEBENTURES

The issued ordinary share capital of the Company as at 1 April 2014 was 971,803,122 ordinary shares and at 31 March 2015 was 972,453,819 ordinary shares of 73<sup>19</sup>/<sub>22</sub>p each. It increased over the year by 650,697 ordinary shares on the issue of shares to the trustee of The 3i Group Share Incentive Plan and on the issue of shares under The 3i Group Discretionary Share Plan.

At the Annual General Meeting ("AGM") on 17 July 2014, the Directors were authorised to repurchase up to 97,000,000 ordinary shares in the Company (representing approximately 10% of the Company's issued ordinary share capital as at 13 May 2014) until the Company's AGM in 2015 or 16 October 2015, if earlier. This authority was not exercised in the year.

The issued B share capital of the Company as at 1 April 2014 was 4,635,018 B shares (cumulative preference shares of 1p each). At the AGM on 17 July 2014, the Directors were authorised to repurchase that number of B shares in the Company until the Company's AGM in 2015 or 16 October 2015, if earlier. In order to simplify the Company's capital structure, this authority was exercised on 13 June 2014 when the outstanding 4,635,018 B shares in issue with a total nominal value of £46,350.18 were repurchased by the Company for an aggregate consideration of £6,092,100.80 and subsequently cancelled. These shares represented 0.0006% of the Company's called up share capital at the date of acquisition.

As detailed in Note 16 to the Accounts, as at 31 March 2015 the Company had in issue Notes issued under the 3i Group plc £2,000 million Note Issuance Programme.

## DIRECTORS' CONFLICTS OF INTERESTS AND DIRECTORS' INDEMNITIES

Directors have a statutory duty to avoid conflicts of interest with the Company. The Company's Articles of Association enable Directors to approve conflicts of interest and include other conflict of interest provisions. The Company has implemented processes to identify potential and actual conflicts of interest. Such conflicts are then considered for approval by the Board, subject, if necessary, to appropriate conditions.

As permitted by the Company's Articles of Association during the year and as at the date of this Directors' report, there were in place Qualifying Third-Party Indemnity Provisions (as defined under relevant legislation) for the benefit of the Company's Directors and for the benefit of Directors of one associated company.

## EMPLOYMENT

The employment policy of the Group is one of equal opportunity in the selection, training, career development and promotion of employees, regardless of age, gender, sexual orientation, ethnic origin, religion and whether disabled or otherwise.

3i treats applicants and employees with disabilities fairly and provides facilities, equipment and training to assist disabled employees to do their jobs. Arrangements are made as necessary to ensure support to job applicants who happen to be disabled and who respond to requests to inform the Company of any requirements. Should an employee become disabled during their employment, efforts would be made to retain them in their current employment or to explore the opportunities for their retraining or redeployment within 3i. Financial support is also provided by 3i to support disabled employees who are unable to work, as appropriate to local market conditions.

3i's principal means of keeping in touch with the views of its employees is through employee appraisals, informal consultations, team briefings, and staff conferences. Managers throughout 3i have a continuing responsibility to keep their staff fully informed of developments and to communicate financial results and other matters of interest. This is achieved by structured communication including regular meetings of employees.

3i is an equal opportunities employer and has clear grievance and disciplinary procedures in place. 3i also has an employee assistance programme which provides a confidential, free and independent counselling service and is available to all UK staff and their families in the UK.

3i's employment policies are designed to provide a competitive reward package which will attract and retain high quality staff, whilst ensuring that the relevant costs remain at an appropriate level.

3i's remuneration policy is influenced by 3i's financial and other performance conditions and market practices in the countries in which it operates. All employees receive a base salary and are also eligible to be considered for a performance-related annual variable incentive award. For those members of staff receiving higher levels of annual variable incentive awards, a proportion of such awards is delivered in 3i shares, vesting over a number of years. Remuneration policy is reviewed by the 3i Group plc Remuneration Committee, comprising 3i Group plc non-executive Directors.

Where appropriate, employees are eligible to participate in 3i share schemes to encourage employees' involvement in 3i's performance. Investment executives in the Private Equity business line may also participate in carried interest schemes, which allow executives to share directly in any future profits on investments. Similarly, investment executives in the Infrastructure and Debt Management business lines may participate in asset-linked and/or fee-linked incentive arrangements. Employees participate in local state or company pension schemes as appropriate to local market conditions.

## POLITICAL DONATIONS

In line with Group policy, during the year to 31 March 2015 no donations were made to political parties or organisations, or independent election candidates, and no political expenditure was incurred.

## SIGNIFICANT AGREEMENTS

As at 31 March 2015, the Company was party to one agreement that is subject to a renegotiation period on a change of control of the Company following a takeover bid. This agreement is a £350 million multi-currency Revolving Credit Facility Agreement dated 5 September 2014, between the Company, Barclays Bank PLC and 11 other banks. The Company is required to notify Barclays Bank PLC, as agent bank, within five days, of a change of control. This opens a 20-day negotiation period to determine if the Majority Lenders (as defined in the agreement) are willing to continue the facility. Failing agreement, amounts outstanding would be repayable and the facility cancelled.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual report and accounts in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRSs") which have been adopted by the European Union.

Under Company Law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position, financial performance and cash flows of the Group for that period. The Directors consider that this Annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. In preparing the Group financial statements the Directors:

- (a) select suitable accounting policies in accordance with International Accounting Standard 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- (b) present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- (c) provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- (d) state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements; and
- (e) make judgements and estimates that are reasonable.

## Statutory and corporate governance information continued

The Directors have a responsibility for ensuring that proper accounting records are kept which are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group financial statements comply with the Companies Act 2006.

They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

In accordance with the FCA's Disclosure and Transparency Rules, the Directors confirm to the best of their knowledge that:

(a) the financial statements, prepared in accordance with applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and

(b) the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face.

The Directors of the Company and their functions are listed in the Board of Directors and Executive Committee section.

### GOING CONCERN

The Directors have acknowledged their responsibilities in relation to the financial statements for the year to 31 March 2015.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review section. The financial position of the Group, its capital structure, gearing and liquidity positions are described in the Financial review section. The Group's policies on risk management, including treasury and funding risks, are contained in the Risk section. Further details are contained in the Financial statements and Notes including, in particular, details on financial risk management.

The Directors believe that the Group is well placed to manage its business risks successfully. The Directors have considered the uncertainties inherent in current and expected future market conditions, their possible impact upon the financial performance of the Group and a report from the Group Finance Director on the outlook for liquidity. After consideration, the Directors are satisfied that the Company has and will maintain sufficient financial resources to enable it to continue operating in the foreseeable future and therefore continue to adopt the going concern basis in preparing the Annual report and accounts.

### AUDIT INFORMATION

Pursuant to section 418(2) of the Companies Act 2006, each of the Directors confirms that:

(a) so far as they are aware, there is no relevant audit information of which the Company's Auditors are unaware; and

(b) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of such information.

### APPOINTMENT OF AUDITORS

In accordance with section 489 of the Companies Act 2006, a resolution proposing the reappointment of Ernst & Young LLP as the Company's Auditors will be put to members at the forthcoming AGM.

### INFORMATION REQUIRED BY LISTING RULE 9.8.4

Information required by Listing Rule 9.8.4 may be found as set out below:

Topic	Location
Capitalised interest	Portfolio income on page 26
Share allotments	Note 19

### INFORMATION INCLUDED IN STRATEGIC REPORT

In accordance with section 414 C (11) of the Companies Act 2006 the following information otherwise required to be set out in the Directors' report has been included in the Strategic report: risk management objectives and policies; post balance sheet events; likely future developments in the business; and greenhouse gas emissions.

# Corporate governance statement

This section of the Directors' report contains the corporate governance statement required by FCA Disclosure and Transparency Rule 7.2.

## CORPORATE GOVERNANCE

The Company seeks to comply with established best practice in the field of corporate governance. The Board has adopted core values and global policies which set out the behaviour expected of staff in their dealings with shareholders, customers, colleagues, suppliers and others who engage with the Company.

Throughout the year, the Company complied with the provisions of the UK Corporate Governance Code (the "Code") published by the Financial Reporting Council in September 2012 and which is available on the FRC website.

## THE BOARD'S RESPONSIBILITIES AND PROCESSES

The Board's key responsibilities are described on page 50. It is responsible to shareholders for the overall management of the Group and may exercise all the powers of the Company subject to the provisions of relevant statutes, the Company's Articles of Association and any directions given by special resolution of the shareholders. The Articles of Association empower the Board to offer, allot, grant options over or otherwise deal with or dispose of the Company's shares as the Board may decide. The Companies Act 2006 authorises the Company to make market purchases of its own shares if the purchase has first been authorised by a resolution of the Company.

At the AGM in July 2014, shareholders renewed the Board's authority to allot ordinary shares and to repurchase ordinary shares on behalf of the Company subject to certain limits and also renewed the Board's authority to repurchase B shares on behalf of the Company subject to certain limits. Details of the authorities which the Board will be seeking at the 2015 AGM are set out in the 2015 Notice of AGM.

The Articles of Association also specifically empower the Board to exercise the Company's powers to borrow money and to mortgage or charge the Company's assets and any uncalled capital and to issue debentures and other securities.

## MATTERS RESERVED FOR THE BOARD

The Board has approved a formal schedule of matters reserved to it and its duly authorised Committees for decision. These include:

- Approval of the Group's overall strategy, strategic plan and annual operating budget;
- Approval of the Company's half yearly and annual financial statements and changes in the Group's accounting policies or practices;
- Changes relating to the capital structure of the Company or its regulated status;
- Major capital projects;
- Major changes in the nature of business operations;
- Investments and divestments in the ordinary course of business above certain limits set by the Board from time to time;
- Policy on borrowing, gearing, hedging and treasury matters;
- Adequacy of internal control systems;
- Appointments to the Board and the Executive Committee;
- Principal terms and conditions of employment of members of the Executive Committee; and
- Changes in employee share schemes and other long-term incentive schemes.

Matters delegated by the Board to management include implementation of the Board approved strategy, day-to-day operation of the business, the appointment and remuneration of executives below the Executive Committee and the formulation and execution of risk management policies and procedures.

A succession and contingency plan for executive leadership is prepared by management and reviewed periodically by the Board. The purpose of this plan is to identify suitable candidates for succession to key senior management positions, agree their training and development needs, and ensure the necessary human resources are in place for the Company to meet its objectives.

## Corporate governance statement continued

**MEETINGS OF THE BOARD**

The principal matters considered by the Board during the year (in addition to matters formally reserved to the Board) included:

- The Group's strategic model, related KPIs and annual budget;
- Regular reports from the Chief Executive;
- Regular reports from the Board's committees;
- The recommendations of the Valuations Committee on valuations of investments;
- The Annual report and accounts, half yearly report and quarterly trading updates;
- Dividends;
- Reviews of and updates on the Group's Private Equity, Infrastructure and Debt Management businesses;

- Changes to the Company's Investment Policy which were approved by the 2014 AGM;
- The repurchase during the year of the Company's outstanding B shares;
- Review of Treasury Policy; and
- Organisational capability and succession plans.

Reports and papers are circulated to the Directors in a timely manner in preparation for Board and Committee meetings. These papers are supplemented by information specifically requested by the Directors from time to time.

**PERFORMANCE EVALUATION**

During the year, the Board conducted its annual evaluation of its own performance and that of its committees and individual Directors. Further details are given on page 52.

**ATTENDANCE AT BOARD AND COMMITTEE MEETINGS**

The table below shows the number of full meetings of the Board and its committees attended by Directors during the year to 31 March 2015 and, in brackets, the number of such meetings they were eligible to attend. In addition to these meetings a number of ad hoc meetings were held to deal with specific items as they arose.

	Board	Audit and Compliance Committee	Nominations Committee	Remuneration Committee	Valuations Committee
Total meetings held	6	6	6	5	4
<b>Number attended:</b>					
Sir Adrian Montague	6(6)		5(5)		4(4)
S A Borrows <sup>1</sup>	6(6)		2(2)		4(4)
J S Wilson	6(6)				4(4)
J P Asquith	6(6)	6(6)	6(6)	5(5)	
C J Banzky <sup>2</sup>	3(4)	4(5)			
A R Cox	6(6)	6(6)	6(6)	5(5)	
D A M Hutchison	6(6)		6(6)	5(5)	4(4)
R H Meddings <sup>3</sup>	2(2)	1(1)	2(2)		
M G Verluyten	6(6)	4(4)	6(6)		3(4)

1 Stepped down from the Nominations Committee on 24 September 2014.

2 Appointed 17 July 2014.

3 Retired 17 July 2014.



## APPOINTMENT AND RE-ELECTION OF DIRECTORS

Subject to the Company's Articles of Association, the Companies Acts and satisfactory performance evaluation, non-executive Directors are appointed for an initial three-year term. Before the third and sixth anniversaries of first appointment, the Director discusses with the Board whether it is appropriate for a further three-year term to be served.

Under the Company's Articles of Association, the minimum number of Directors is two and the maximum is 20, unless otherwise determined by the Company by ordinary resolution. Directors are appointed by ordinary resolution of shareholders or by the Board. The Company's Articles of Association provide for Directors to retire by rotation at an AGM if they were appointed by the Board since the preceding AGM, they held office during the two preceding AGMs but did not retire at either of them, they held non-executive office for a continuous period of nine years or more at the date of that AGM, or they choose to retire from office. Shareholders can remove any Director by special resolution and appoint another person to be a director in their place by ordinary resolution.

Subject to the Company's Articles of Association, retiring Directors are eligible for reappointment. The office of Director is vacated if the Director resigns, becomes bankrupt or is prohibited by law from being a Director or where the Board so resolves following the Director suffering from ill-health or being absent from Board meetings for 12 months without the Board's permission.

In accordance with the Code, all Directors are subject to reappointment every year. Accordingly, at the AGM to be held on 25 June 2015, all the Directors will retire from office. All the Directors are eligible for and seek reappointment other than Sir Adrian Montague who will retire as a Director at the conclusion of the AGM. The Board's recommendation for the reappointment of Directors is set out in the 2015 Notice of AGM.

## THE ROLES OF THE CHAIRMAN, CHIEF EXECUTIVE AND SENIOR INDEPENDENT DIRECTOR

The Board approved division of responsibilities between the Chairman of the Board and the Chief Executive is described on page 52.

During the year, Mr R H Meddings served as Senior Independent Director until 17 July 2014 when he retired from the Board and Mr J P Asquith served as Senior Independent Director from that date.

## DIRECTORS

Directors' biographical details are set out on page 48. The Board currently comprises the Chairman, six independent non-executive Directors and two Executive Directors. Sir Adrian Montague served as Chairman and Mr J P Asquith, Mr S A Borrows, Mr A R Cox, Mr D A M Hutchison, Ms M G Verluyten and Mrs J S Wilson served as Directors throughout the year under review. Mr R H Meddings served as a Director until 17 July 2014 and Mrs C J Banszky served as a Director from 17 July 2014. Following the year end, Mr S R Thompson was appointed as a non-executive Director on 13 April 2015.

In addition to fulfilling their legal responsibilities as Directors, non-executive Directors are expected to bring an independent judgement to bear on issues of strategy, performance, resources and standards of conduct, and to help the Board provide the Company with effective leadership. Further details of their role are set out on page 52. Non-executive Directors are expected to make available sufficient time to meet the requirements of the appointment. The average time commitment is expected to be around 15 days a year together with additional time for serving on the Board's committees.

The Board's discussions, and its approval of the Group's strategic plan and annual budget, provide the non-executive Directors with the opportunity to contribute to and validate management's plans and assist in the development of strategy. The non-executive Directors receive regular management accounts, reports and information which enable them to scrutinise the Company's and management's performance against agreed objectives.

### Directors' independence

All the non-executive Directors (other than the Chairman, who was independent on appointment) were considered by the Board to be independent for the purposes of the Code in the year to 31 March 2015.

The Board reviews non-executive Director independence at least annually, having regard to the potential relevance and materiality of a Director's interests and relationships. No Director was materially interested in any contract or arrangement subsisting during or at the end of the financial period that was significant in relation to the business of the Company.

### Directors' employment contracts

Mr S A Borrows and Mrs J S Wilson each have employment contracts with the Group with notice periods of 12 months where notice is given by the Group and six months where notice is given by the Director. Save for these notice periods the employment contracts have no unexpired terms. None of the other Directors has a service contract with the Company.

## Corporate governance statement continued

### Training and development

The Company has a training policy which provides a framework within which training for Directors is planned with the objective of ensuring Directors understand the duties and responsibilities of being a director of a listed company. All Directors are required to update their skills and maintain their familiarity with the Company and its business continually. Presentations on different aspects of the Company's business are made regularly to the Board. On appointment, all non-executive Directors have discussions with the Chairman and the Chief Executive following which appropriate briefings on the responsibilities of Directors, the Company's business and the Company's procedures are arranged. The Company provides opportunities for non-executive Directors to obtain a thorough understanding of the Company's business by meeting members of the senior management team who in turn arrange, as required, visits to investment or support teams.

The Company has procedures for Directors to take independent legal or other professional advice in relation to the performance of their duties.

### THE BOARD'S COMMITTEES

As described on page 51, the Board is assisted by various principal committees of the Board which report regularly to it.

#### Audit and Compliance Committee

The membership and activities of the Audit and Compliance Committee are described in its report on pages 65 to 68.

#### Remuneration Committee

The membership and activities of the Remuneration Committee are described in the Directors' remuneration report on pages 72 to 81.

#### Valuations Committee

The membership and activities of the Valuations Committee are described in its report on pages 69 to 71.

#### Nominations Committee

The Nominations Committee comprises Sir Adrian Montague (Chairman), Mrs C J Banszky, Mr J P Asquith, Mr A R Cox, Mr D A M Hutchison, Mr S R Thompson, and Ms M G Verluyten, all of whom served throughout the year, save for Mrs Banszky who served from her appointment as a Director on 17 July 2014 and Mr Thompson who served from his appointment as a Director on 13 April 2015. Mr R H Meddings was a member of the Committee until his retirement from the Board on 17 July 2014 and Mr S A Borrows was a member of the Committee until 24 September 2014.

During the year, the Nominations Committee held six meetings. Attendance of members at those meetings is shown on the table on page 58. The Committee:

- Considered the balance and composition of the Board, including succession planning, and the needs of the Company in terms of the desirable experience and qualifications of future appointees as non-executive Directors;
- Recommended Mr Asquith for appointment as Senior Independent Director;
- Considered candidates for appointment as Chairman of the Board in succession to Sir Adrian Montague;
- Considered candidates for appointment as non-executive Director and recommended to the Board the appointment of Mrs Banszky; and
- Considered and put in train arrangements for selecting further candidates for recommendation to the Board for appointment as non-executive Director.

The Company has a formal, rigorous and transparent process for the appointment of Directors with the objective of identifying the skills and experience profile required of new Directors and identifying suitable candidates. The procedure includes the appraisal and selection of potential candidates by the Committee, including (in the case of non-executive Directors) whether they have sufficient time to fulfil their roles. Specialist recruitment consultants assist the Committee to identify suitable candidates for appointment. The Committee's recommendations for appointment are put to the full Board for approval.

Further to the publication of the Davies Report on Women on Boards, and Code Provision B.2.4, the Board strongly supports the principle of boardroom diversity, of which gender is one important aspect. The Board's aim is to have a diverse Board in terms of gender, industry experience, skills and educational background, and nationality. The Board makes appointments on merit and against objective criteria. External search consultancies engaged by the Company are instructed to put forward for all Board positions a diversity of candidates including women candidates. External search consultancies engaged by the Committee during the year were Egon Zehnder, Russell Reynolds Associates and The Zygos Partnership. Egon Zehnder and Russell Reynolds Associates also provided other recruitment services to the Group during the year.

### THE COMPANY SECRETARY

Directors have access to the advice and services of the General Counsel and Company Secretary, who advises the Board, through the Chairman, on governance matters. The Company's Articles of Association and the schedule of matters reserved to the Board or its duly authorised committees for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

## MAJOR INTERESTS IN ORDINARY SHARES

Notifications of the following major voting interests in the Company's ordinary share capital (notifiable in accordance with Chapter 5 of the FCA's Disclosure and Transparency Rules or section 793 Companies Act 2006) had been received by the Company as at 31 March 2015 and 1 May 2015.

	As at 31 March 2015	% of issued share capital	As at 1 May 2015	% of issued share capital
BlackRock, Inc	102,041,789	10.49	100,494,125	10.33
Artemis Investment Management LLP	67,795,142	6.97	64,286,507	6.61
UBS Global Asset Management	38,478,516	3.96	38,608,638	3.97
Threadneedle Asset Management Limited	38,039,519	3.91	38,039,519	3.91
State Street Global Advisors	31,585,088	3.25	31,843,893	3.27
J O Hambro Capital Management Group Limited	31,393,678	3.22	29,837,786	3.07
Legal & General Investment Management Limited	30,443,239	3.13	30,429,315	3.13

## RELATIONS WITH SHAREHOLDERS AND POTENTIAL INVESTORS

### Approach to Investor Relations

The Board recognises the importance of maintaining a purposeful relationship with shareholders. The Group has a comprehensive Investor Relations programme to help existing and potential investors to understand its activities, strategy and financial performance. The Chief Executive and the Group Finance Director meet with the Company's principal shareholders to discuss relevant issues as they arise. The Chairman maintains a dialogue with shareholders on strategy, corporate governance and Directors' remuneration as required. The Board receives reports from the Company's brokers on shareholder issues and non-executive Directors are invited to attend the Company's presentations to analysts and are offered the opportunity to meet shareholders.

### Board oversight

The Executive Directors brief the Board on a regular basis on the implementation of the Investor Relations programme and on feedback received from analysts and investors. Any significant concern raised by shareholders in relation to the Group is also communicated to the Board. In addition, research reports published by investment banks on 3i are circulated to the Board on a regular basis.

The Board also receives periodic feedback from existing shareholders and potential investors through 3i's corporate brokers, Bank of America Merrill Lynch and Barclays.

### Institutional investor programme

#### Meetings with principal shareholders

The Executive Directors meet with the Group's principal shareholders on a twice yearly basis, following the publication of annual and half yearly results and as required during the year. The Chairman and Senior Independent Director are also available to meet with shareholders as required. The Investor Relations department also manages a programme of engagement with smaller shareholders, implemented through regular presentations and meetings.

### Meetings with potential investors

During the year, the Executive Directors and the Investor Relations team held regular meetings with potential investors internationally to communicate the strategy and performance of 3i.

### Annual and half yearly results presentations

The Executive Directors present the annual and half yearly results to a broad group of institutional investors and analysts. These presentations are webcast live on 3i's website, and the on-demand webcast remains available on the website for a period of 12 months.

### Capital markets day

The 2014 capital markets day, held in June, consisted of a presentation to significant shareholders and analysts by senior 3i executives and the management team of Action, 3i's largest investment, followed by a tour of Action's distribution centre in the northern Netherlands. The presentation focused on Action's business model and strategy and on its recent financial performance. The presentation materials used on the day were made available on 3i's website to enable those investors and analysts that could not attend to access the information provided at the meeting.

### Industry conferences

Throughout the year, the Executive Directors also participated in a number of industry conferences organised by investment banks for their institutional investor base. These included conferences organised by Morgan Stanley, Société Générale, KBW, Bank of America Merrill Lynch and Citi.

### Individual investors

Individual investors are encouraged to engage with the Group and provide feedback through the Investor Relations team and the Company Secretary, whose contact details are available on the website.

## Corporate governance statement continued

### Website

3i's website provides a brief description of 3i's history, current operations and strategy, as well as an archive of over 10 years of news and historical financial information on the Group and details of forthcoming events for shareholders and analysts. Annual and half-year results presentations are also webcast live and on-demand on 3i's website.

### Annual General Meeting

The Company also uses its AGM as an opportunity to communicate with its shareholders. At the Meeting, business presentations are generally made by the Chairman and the Chief Executive. The Chairmen of the Remuneration, Audit and Compliance, and Nominations Committees are generally available to answer shareholders' questions. Business to be discussed at the meeting is notified to shareholders in advance through the Notice of Meeting and covers matters such as the annual election of Directors, the appointment of the Auditors and the dividend declaration. During the meeting, shareholders are also asked to approve the financial statement and report of the Directors and Auditors. In addition, shareholders are asked to approve the Directors' remuneration report.

The 2014 Notice of AGM was dispatched to shareholders not less than 20 working days before the Meeting. At that Meeting, voting on each resolution was taken on a poll and the poll results were made available on the Company's website.

### RIGHTS AND RESTRICTIONS ATTACHING TO SHARES

A summary of the rights and restrictions attaching to shares as at 31 March 2015 is set out below.

The Company's Articles of Association may be amended by special resolution of the shareholders in general meeting. Holders of ordinary shares enjoy the rights set out in the Articles of Association of the Company and under the laws of England and Wales. Any share may be issued with or have attached to it such rights and restrictions as the Company by ordinary resolution or, failing such resolution, the Board may decide.

Holders of ordinary shares are entitled to attend, speak and vote at general meetings and to appoint proxies and, in the case of corporations, corporate representatives to attend, speak and vote at such meetings on their behalf. To attend and vote at a general meeting a shareholder must be entered on the register of members at such time (not being earlier than 48 hours before the meeting) as stated in the Notice of general meeting. On a poll, holders of ordinary shares are entitled to one vote for each share held.

Holders of ordinary shares are entitled to receive the Company's Annual report and accounts, to receive such dividends and other distributions as may lawfully be paid or declared on such shares and, on any liquidation of the Company, to share in the surplus assets of the Company after satisfaction of the entitlements of the holders of any shares with preferred rights as may then be in issue.

There are no restrictions on the transfer of fully paid shares in the Company, save as follows. The Board may decline to register: a transfer of uncertificated shares in the circumstances set out in the Uncertificated Securities Regulations 2001; a transfer to more than four joint holders; a transfer of certificated shares which is not in respect of only one class of share; a transfer which is not accompanied by the certificate for the shares to which it relates; a transfer which is not duly stamped in circumstances where a duly stamped instrument is required; or a transfer where in accordance with section 794 of the Companies Act 2006 a notice (under section 793 of that Act) has been served by the Company on a shareholder who has then failed to give the information required within the specified time. In the latter circumstances the Company may make the relevant shares subject to certain restrictions (including in respect of the ability to exercise voting rights, to transfer the shares validly and, except in the case of a liquidation, to receive the payment of sums due from the Company).

There are no shares carrying special rights with regard to control of the Company. There are no restrictions placed on voting rights of fully paid shares, save where in accordance with Article 12 of the Company's Articles of Association a restriction notice has been served by the Company in respect of shares for failure to comply with statutory notices or where a transfer notice (as described below) has been served in respect of shares and has not yet been complied with. Where shares are held on behalf of former or current employees under employee share schemes, those participants can give instructions to the holder of such shares as to how votes attached to such shares should be exercised.

In the circumstances specified in Article 38 of the Company's Articles of Association the Company may serve a transfer notice on holders of shares. The relevant circumstances relate to: (a) potential tax disadvantage to the Company, (b) the number of "United States Residents" who own or hold shares becoming 75 or more, or (c) the Company being required to be registered as an investment company under relevant US legislation. The notice would require the transfer of relevant shares and pending such transfer the rights and privileges attaching to those shares would be suspended.

The Company is not aware of any agreements between holders of its securities that may restrict the transfer of shares or exercise of voting rights.

## PORTFOLIO MANAGEMENT AND VOTING POLICY

In relation to unquoted investments, the Group's approach is to seek to add value to the businesses in which the Group invests through the Group's extensive experience, resources and contacts and through active engagement with the Boards of those companies. In relation to quoted investments, the Group's policy is to exercise voting rights on all matters affecting its interests.

## INTERNAL CONTROL

The Board is responsible for the Group's system of internal control and reviews its effectiveness at least annually. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

Through the regular meetings of the Board and the schedule of matters reserved to the Board or its duly authorised committees for decision, the Board aims to maintain full and effective control over appropriate strategic, financial, operational and compliance issues.

The Board has put in place an organisational structure with clearly defined lines of responsibility and delegation of authority. The Board considers and approves a strategic plan and budget on an annual basis and receives regular updates. In addition, there are established procedures and processes for planning and controlling expenditure and the making of investments. There are also information and reporting systems for monitoring the Group's businesses and their performance.

The Group Risk Committee is a management committee formed by the Chief Executive and its purpose is to review the business of the Group in order to ensure that business risk is considered, assessed and managed as an integral part of the business. There is an ongoing process for identifying, evaluating and managing the Group's significant risks. This process was in place for the year to 31 March 2015 and up to the date of this report. Details of the risk management framework can be found in the Risk section.

The overall internal control process is regularly reviewed by the Board and the Audit and Compliance Committee and complies with the internal control guidance for Directors on the Code issued by the Turnbull Committee. The internal control process established for the Group includes:

### Policies

- Core values and global policies together comprising the Group's high-level principles and controls, with which all staff are expected to comply;
- Detailed policies and procedures, with processes for reporting weaknesses and for monitoring corrective action; and
- A Compliance manual, with procedures for reporting compliance therewith.

### Processes

- Appointment of experienced and professional staff, both by recruitment and promotion, of the necessary calibre to fulfil their allotted responsibilities;
- A planning framework which incorporates a Board approved strategic plan, with objectives for each business unit;
- Formal business risk reviews performed by management which evaluate the potential financial impact and likelihood of identified risks and possible new risk areas;
- The setting of control, mitigation and monitoring procedures and the review of actual occurrences, identifying lessons to be learnt;
- A comprehensive system of financial reporting to the Board, based on an annual budget with monthly reporting of actual results, analysis of variances, scrutiny of key performance indicators and regular re-forecasting;
- Regular reports to the Board, which analyse funding requirements, track the generation and use of capital and the volume of liquidity, measure the Group's exposure to exchange rate movements and record the level of compliance with the Group's funding objectives;
- A Group Compliance function whose role is to integrate regulatory compliance procedures and best practices into the Group's systems; and
- Well defined procedures governing the appraisal and approval of investments, including detailed investment and divestment approval procedures, incorporating appropriate levels of authority and regular post-investment reviews.



## Corporate governance statement continued

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### Verification

- An Internal Audit function which undertakes periodic examination of business units and processes and recommends improvements in controls to management;
- The external Auditors who are engaged to express an opinion on the annual financial statements; and
- An Audit and Compliance Committee which considers significant control matters and receives reports from Internal Audit, the external Auditors and Group Compliance on a regular basis.

The internal control system is monitored and supported by Internal Audit and Group Compliance, which operate on an international basis and report to management and the Audit and Compliance Committee on the Group's operations. The work of Internal Audit is focused on the areas of greatest risk to the Group determined with reference to the Group's risk management process.

The external Auditors independently and objectively review the approach of management to reporting operating results and financial condition. They also review and test the system of internal financial control and the information contained in the annual financial statements to the extent necessary for expressing their opinion.

### FINANCIAL REPORTING

In the context of the above internal control framework, there are specific processes in place in relation to Financial Reporting, including:

- Comprehensive system of key control and oversight processes, including regular reconciliations, line manager reviews and systems' access controls;
- Updates for consideration by the Audit and Compliance Committee of accounting developments, including draft and new accounting standards and legislation;
- A separate Valuations Committee which considers the Group's investment valuation policies, application and outcome;
- Approval of the Group's budget by the Board and regular updates on actual and forecast financial performance against budget;
- Reports from Internal Audit on matters relevant to the financial reporting process, including periodic assessments of internal controls, processes and fraud risk;
- Independent updates and reports from the external Auditors on accounting developments, application of accounting standards, key accounting judgements and observations on systems and controls; and
- Regular risk reviews, including an assessment of risks to reliable financial reporting covering people, processes and systems, and updates on the management of identified risks or actual incidents.

### DIRECTORS' REPORT

For the purposes of the UK Companies Act 2006, the Directors' report of 3i Group plc comprises the Corporate Governance section on pages 46 to 81 other than the Directors' remuneration report on pages 72 to 81.

The Strategic report, Directors' report and Directors' remuneration report have been drawn up and presented in accordance with and in reliance upon English company law and the liabilities of the Directors in connection with those reports shall be subject to the limitations and restrictions provided by that law.

By order of the Board

**K J Dunn**

Company Secretary

13 May 2015

Registered Office:  
16 Palace Street,  
London SW1E 5JD



# Audit and Compliance Committee report

## INTRODUCTION

“The Audit and Compliance Committee’s priorities remain the effectiveness of internal control and ensuring the integrity of the Group’s financial reporting.”

### Caroline Banszky

Chairman, Audit and Compliance Committee



## INTRODUCTION

With the retirement in July 2014 of Richard Meddings, who had been Chairman of the Audit and Compliance Committee (“the Committee”) since October 2010, Caroline Banszky was appointed as Chairman with effect from January 2015 after a period of familiarisation with the business. In the interim, Jonathan Asquith chaired the Committee as Acting Chairman.

## MEMBERSHIP AND ATTENDEES

The Board is satisfied that Mrs Banszky and Mr Asquith both have recent and relevant financial experience as outlined in the UK Corporate Governance Code. Further detail on each Director’s experience can be found in the Directors’ biographies on page 48.

Throughout the year, the Committee received regular reports on a number of matters including the valuation of the investment portfolio, internal audit findings and follow-up work, accounting issues and judgements, and legal and regulatory matters. The Committee received presentations from members of senior management including the Chief Executive, Group Finance Director, General Counsel, Group Financial Controller, the Director, Internal Audit and the Director, Group Compliance, as well as from the external Auditors Ernst & Young LLP.

Other attendees were invited from time to time depending on the nature of agenda items.

The Chairman of the Committee also had meetings with a number of these individuals separately, providing an additional forum to discuss specific issues. During the year, the Committee held private discussions with the Group Finance Director, the Director, Internal Audit, the Director, Group Compliance and with the external Auditors in the absence of management.

For the first time, this Annual Report includes a separate report from the Valuations Committee. The role of the Committee to review and recommend the valuation of the investment portfolio remains unchanged. However the detail on the key valuation considerations and the review and challenge undertaken in the year is now included in the Valuation Committee Report on page 69.

## MEMBERSHIP DURING THE YEAR

Name		Membership status
Caroline Banszky (Chairman)	Non-executive Director	Member since 17 July 2014 Chairman since 1 January 2015
Jonathan Asquith	Non-executive Director	Member since March 2011 Acting Chairman between 17 July 2014 and 1 January 2015
Alistair Cox	Non-executive Director	Member since October 2009
Richard Meddings	Non-executive Director	Retired as Chairman and member on 17 July 2014

## Audit and Compliance Committee report continued

### WHAT THE AUDIT AND COMPLIANCE COMMITTEE REVIEWED IN THE YEAR

The Committee met six times during the year and the attendance of members at meetings is shown in the table on page 58. During the year the Committee's activities included considering the following:

<ul style="list-style-type: none"> <li>■ Annual and half-year reports</li> <li>■ Quarterly trading updates</li> <li>■ Developments in financial reporting</li> <li>■ External reporting being fair, balanced and understandable</li> <li>■ Going concern</li> <li>■ Key areas of accounting judgements and estimates</li> </ul>	<ul style="list-style-type: none"> <li>■ Confirmation of external Auditor independence</li> <li>■ Policy and approval for non-audit fees</li> <li>■ Audit plan and process, fees and engagement</li> <li>■ Auditor performance and effectiveness</li> <li>■ Regulatory position with regard to audit tendering</li> </ul>
<b>Financial reporting</b>	<b>External audit</b>
<ul style="list-style-type: none"> <li>■ 3i's system of internal control and risk management</li> <li>■ External and internal audit reports</li> <li>■ Regulatory changes and compliance</li> <li>■ Annual effectiveness reviews of internal audit and internal control framework</li> </ul>	<ul style="list-style-type: none"> <li>■ Valuation reports and recommending the investment asset valuation to the Board</li> <li>■ Cyber security and business continuity</li> <li>■ Regular reviews of regulatory changes, projects to implement and compliance</li> <li>■ Annual report on tax risk</li> <li>■ Litigation</li> <li>■ Liquidity and going concern</li> </ul>
<b>Internal control and risk management</b>	<b>Risk reviews</b>

In addition to the areas of significant accounting judgement (set out opposite) and monitoring the effectiveness of 3i's risk management, discussed further below, the Committee particularly focused on the changing regulatory environment, the finalisation of implementing a new Private Equity accounting system and the increasing materiality of carried interest payable accrual.

The regulatory and tax environment has been going through a period of unprecedented change. There has been a significant increase in reporting to regulators and tax authorities as well as changes to our operating model in accordance with the new requirements of AIFMD, EMIR, CRD IV, CASS rules and FATCA. This has placed additional burdens on the compliance and finance functions in particular. The Committee has received quarterly updates on the key regulatory and tax developments and outstanding projects from both Finance and Group Compliance. Where necessary external professional service firms have been engaged to review both our interpretation of the requirements and the ongoing compliance as well as the processes implemented to gather new data. The Committee also requested that Internal Audit undertake a series of reviews to further test

implementation of our new regulatory reporting processes and systems and ongoing compliance with the new requirements which were found to be satisfactory.

The Committee assessed how the risks associated with a new system implementation and related process changes had been mitigated. The Committee requested that Internal Audit undertake periodic reviews of the project, including the change management process and a post implementation review. It also requested a report on the effectiveness of the system from the Group Financial Controller. In addition the external Auditors considered the effective working of the system and application controls as part of the external audit. The Committee was satisfied that the risks were being appropriately managed.

The improved investment performance and good flow of realisations led the Committee to review the carried interest payable accrual and payment processes. Internal Audit undertook a review of the processes and accounting policies. Following the completion of this review and discussion with the external Auditors, the Committee was satisfied that carried interest was being appropriately managed and accounted for.

Area of significant accounting judgement	What the Committee reviewed and concluded
<p><b>Valuation of the Proprietary Capital portfolio</b></p> <p>The most material area of judgement in the financial statements, and noted as a key risk by the external Auditor, relates to the valuation of the unquoted Proprietary Capital portfolio, which at 31 March 2015 was £3,114 million, or 80% of net assets, under the Investment basis.</p> <p>In recognition of the importance of this area the Board has established a separate Valuations Committee to review the valuations policy, process and application to individual investments. This Committee provides quarterly recommendations to the Committee and the Board.</p>	<p>On behalf of the Board, the Committee considered quarterly reports from the Chairman of the Valuations Committee and the Group Finance Director, with particular focus on the assumptions supporting the unquoted asset investments, any valuation uncertainties and the proposed disclosure in the financial statements.</p> <p>For further information see the report of the Valuation Committee on pages 69 to 71.</p>
<p><b>Fair, balanced and understandable</b></p> <p>Under the UK Corporate Governance Code the Board should establish arrangements to ensure the Annual Report presents a fair, balanced and understandable assessment of the Company's position and prospects.</p> <p>On behalf of the Board, the Audit and Compliance Committee considered the procedures required to ensure that this statement could be made.</p>	<p>The Committee reviewed the Interim and Annual financial statements as well as the quarterly trading updates with management, focusing on the integrity and clarity of disclosure and to enable the Board ultimately to provide the fair, balanced and understandable confirmation to shareholders in the Annual report. The Committee considers that the Annual report is consistent with its understanding of the business.</p> <p>The 2015 Annual report has been enhanced, in parallel with the FRC's Clear and Concise reporting programme, to ensure that it is less cluttered and duplication is removed.</p> <p>A report highlighting the relevant considerations was reviewed by the Committee in advance of the year end and a summary of the procedures undertaken was prepared alongside the Annual report.</p>
<p><b>Ongoing development of IFRS 10 and the presentation of 3i's results</b></p> <p>The Group adopted IFRS 10 in its 2014 accounts and introduced the non-GAAP Investment basis financial statements to ensure that its results remained understandable.</p>	<p>The Committee monitored feedback received from external users of the financial statements on the presentation of the non-GAAP Investment basis and was satisfied that maintenance of the Investment basis financial statements was appropriate.</p> <p>The Committee continued to receive regular updates on developments in IFRS 10, including the amendment in 2014, and to endorse the engagement of management with the FRC, IASB and relevant industry bodies.</p> <p>The external Auditors also confirmed that the inclusion of the Investment basis remained consistent with the prior year.</p>

## RISK AND INTERNAL CONTROL REVIEWS

The Committee has responsibility on behalf of the Board for overseeing the effectiveness of the Group's risk management and internal control systems. It monitors the activities of the Group Risk Committee ("GRC"), the risk management processes in place and the activities of the Internal Audit function, including its reporting on the effectiveness of controls, the use of the Group's whistleblowing facility and any changes in approach or issues relating to the UK Bribery Act.

A report summarising each quarterly GRC meeting, along with the risk report considered, is circulated to the Audit and Compliance Committee for review and discussion. The risk report details the principal risks, which are derived from the Group Risk process, along with commentary on how the exposure to these risks has moved in the quarter. The Committee also receives reports from Internal Audit quarterly, covering change management and other areas of identified higher risk.

## Audit and Compliance Committee report continued

The General Counsel and Group Finance Director prepare an annual report on the internal controls framework for presentation to the Committee. The review documents the components of the internal control framework and highlights the key developments in the year. A separate commentary on the operation and effectiveness of the internal control framework over the year is independently prepared by Internal Audit. The Group maintains a framework of controls related to key financial processes and management of the associated risks. The effectiveness of such controls is reviewed by Internal Audit, either through dedicated reviews or in the course of other reviews over the course of the year. Group Compliance carries out desk based monitoring, business unit and thematic reviews in relation to compliance policies and other regulatory matters.

The Committee reviewed the scope, activity and effectiveness of the Internal Audit function and met privately with the Director, Internal Audit.

### EXTERNAL AUDIT

Ernst & Young LLP has been the Group's statutory external Auditor since before the Company was listed on the London Stock Exchange in 1994. The Committee assesses the independence and objectivity, qualifications and effectiveness of Ernst & Young LLP on an annual basis. The Committee also concludes on whether to recommend the reappointment of Ernst & Young LLP as Auditors to the Board.

#### Auditor appointment and independence

The Committee recognises the importance of ensuring the independence and objectivity of the Company's Auditors. It reviews the nature and extent of the services provided by them, the level of their fees and the element comprising non-audit fees.

The Committee reviewed the Auditors' fee structure, resourcing and terms of engagement in the year. The total audit fee for the year was £2.0 million (2014: £2.0 million). The Committee is satisfied that this fee is appropriate in respect of the audit services provided and that an effective audit can be provided. The Committee oversees the Group's policy on the provision of non-audit services by the external Auditor. The Committee continues to see benefits for the Group in engaging Ernst & Young LLP where:

- Work is closely related to the audit;
- A detailed understanding of the Group is required; and
- Ernst & Young LLP is able to provide at least an equivalent quality and/or value service than other potential providers.

The Committee Chairman approves all assignments allocated to Ernst & Young LLP over a defined limit, other than those related to due diligence within the Group's investment process. The key principle of our policy is that permission to engage the external Auditor will be refused when a threat to independence and/or objectivity is perceived. Appointments in relation to the investment process are independent of the audit team and are approved separately by the Investment Committee but are reported to the Committee Chairman.

Details of the non-audit fees paid to the Auditors are disclosed in Note 6 to the financial statements. The Committee concluded that all of these fees fell within its criteria for engaging Ernst & Young LLP and that the activities did not undermine the Auditor's independence or objectivity.

#### Assessing external audit effectiveness

The Committee reviews the effectiveness of Ernst & Young LLP through the use of questionnaires completed by management, by considering the extent of their contribution at its meetings throughout the course of the year and in one-to-one meetings.

The 2015 evaluation also reviewed the quality of the audit process, the use of Ernst & Young LLP's valuation practice to support the audit of the portfolio valuations, the technical knowledge of the team and staff turnover within the Ernst & Young LLP audit team and the Committee concluded that the audit was effective.

#### Audit tender

During the year the Committee reviewed the effect of the UK Corporate Governance Code, the EU Audit Regulation 2014 and the Statutory Service Order 2014 issued by the UK Competitions and Market Authority ("CMA") with respect to audit relationships. Due to the extent of the changes to the business following the Strategic Review in 2012, the adoption of IFRS 10 and the extent of existing relationships with alternative audit firms across the Group, the Committee concluded that it would take advantage of the transitional arrangements in relation to auditor rotation as outlined by the Financial Reporting Council and the CMA. The Committee currently plans that Ernst & Young LLP will be retained at least until the conclusion of the term of its current lead partner in 2018. A full tender will therefore be conducted no later than 2018.

By order of the Board

#### C J Banszky

Chairman, Audit and Compliance Committee

13 May 2015



#### READ MORE

Further information on the Audit and Compliance Committee's terms of reference can be found on our website [www.3i.com](http://www.3i.com)

# Valuations Committee report

## INTRODUCTION

“The Valuations Committee plays an important role in providing the Board with assurance that the valuation process is sound and independently challenged.”

**David Hutchison**

Chairman, Valuations Committee



## INTRODUCTION

The Committee has been in operation since before the Company's flotation in 1994 but is reporting directly to shareholders for the first time this year. The Valuations Committee reports to the Audit and Compliance Committee and the Board on the valuation of the Group's investment assets. It meets quarterly, to coincide with the Group's external financial reporting requirements. It reviews and challenges the assumptions behind management's proposed investment asset valuation.

The Committee's activity is principally focused on the Private Equity investments as a high level of judgement is required to value the unquoted portfolio. The Committee has increased its review of the Group's Debt Management investments during the year as the capital allocation to that business has grown. Limited time is devoted to Infrastructure due to the fact that its principal investment in 3i Infrastructure plc is quoted.

The Committee is responsible for keeping the Group's valuation policy under review and recommending any changes to the policy to Audit and Compliance Committee and the Board. The policy is reviewed at least annually. The Group's valuation policy is based on the International Private Equity and Valuation ("IPEV") guidelines which set out recommended practice for fair valuing unquoted investments within the IFRS framework.

## OVERVIEW OF THE VALUATION PROCESS

The Committee receives a detailed report from the Group Finance Director recommending a proposed valuation of the investment portfolio. This report highlights the key themes by business line and the main drivers of value movement analysed between performance, multiple movements and other factors. The Committee also reviews selected material assets in further detail; examples of such assets covered during the year included Action, Basic-Fit, Scandlines and new investments made during FY2015.

In advance of the full year and half year reporting, management hold detailed individual portfolio company reviews with the respective investment teams. All non-executive Directors are free to attend these meetings. Non-executive Directors, including members of the Valuations Committee, attended a significant proportion of all the meetings held in September 2014 and March 2015 and were represented at all of the top five Private Equity portfolio company review meetings.

As part of its external audit, Ernst & Young LLP undertakes a separate review of the proposed investment portfolio valuation to determine that the valuation policy is being complied with and that there is consistent application and support for the underlying assumptions. Ahead of the year-end audit, Ernst & Young LLP's specialist valuations team independently reviews a selection of assets to provide further assurance on their overall audit conclusion on the appropriateness of 3i's portfolio valuation.

## MEMBERSHIP DURING THE YEAR

Name	Membership status
David Hutchison (Chairman)	Non-executive Director Chairman and Member since December 2013
Sir Adrian Montague	Non-executive Director Member since July 2010
Martine Verluyten	Non-executive Director Member since 2012
Simon Borrows	Chief Executive Member since 2012
Julia Wilson	Group Finance Director Member since 2009

Meetings are also attended by other members of the Executive Committee as required, the Group Financial Controller and the external Auditors.

## Valuations Committee report continued

### FY2015 UPDATE

The Committee focused on the following significant issues in the year:

Areas of judgement	What the Committee did
<b>Private Equity</b> <b>Earnings and multiple assumptions</b> <p>The majority of the portfolio is valued using a multiple of EBITDA earnings. This requires judgement as the earnings of the portfolio company may be adjusted so that they are considered "maintainable".</p> <p>There is also a significant degree of judgement in selecting the appropriate set of comparable quoted companies to determine the appropriate multiple to generate an enterprise value. Multiples are selected by reference to quoted comparable companies, M&amp;A transactions and input in certain cases from corporate finance advisors. We also take into account growth profile, diversification and leverage/refinancing risk.</p> <p>The multiple implied by the quoted comparable may be reduced if the longer-term view (cycle or exit plan) supports the use of more conservative multiples.</p>	<p>Earnings data is received monthly from Private Equity portfolio companies and monitored closely by management. Actual earnings may be adjusted in management's proposed valuations, for example, to reflect a full year's trading of an acquired business, removing profit from discontinued activities or excluding exceptional transaction costs. Material adjustments are highlighted to the Committee in the quarterly report for review and approval.</p> <p>Given the strong performance of many quoted markets in the year, management proposed reducing a significant proportion of multiples used to below the multiple implied by the quoted comparable levels. Any such adjustments are reviewed by the Committee. Ernst &amp; Young LLP also specifically review and consider the appropriateness of any such adjustments and reports to the Committee.</p>
<b>Imminent sale assets</b> <p>At any point in time it is likely that a number of potential exit processes from the portfolio are underway. Judgement is applied by management as to the likely eventual exit proceeds and certainty of completion. This means that in some cases an asset may not be moved to an imminent sales basis until very shortly before completion; in other cases the switch may occur on signing. However as a general rule an asset moves to an imminent sale basis only when a process is materially complete and the remaining risks are estimated to be minimal, given the normal completion risk around unquoted equity transactions.</p>	<p>Assets that are within active sales processes are reviewed by the Committee including details such as the timeline to potential completion, the number and make-up of bidders for investments, execution and due diligence risks and regulatory or competition clearance issues. Management propose a treatment for each asset which the Committee reviews.</p>
<b>Assets valued using a DCF basis</b> <p>For assets valued using DCF techniques the key valuation judgements relate to longer-term assumptions that drive the underlying business plan and appropriate discount rates.</p>	<p>Material assumptions and changes to these assumptions are reviewed by the Committee. This may include third-party support if available. Sensitivity to assumptions is also noted.</p> <p>Discount rates are selected by management with reference to market transactions, weighted average cost of capital calculations and other public data. Any material changes are reviewed by the Committee.</p>
<b>Debt Management</b> <b>Valuation process</b> <p>The level of capital deployed into Debt Management investments at 31 March 2015 was £176 million (March 2014: £143 million). 70% of this relates to investment in CLO equity where there is limited trading and therefore limited third-party evidence of value. Consequently, judgement is required on the choice of basis to use, including use of internal DCF models.</p>	<p>As the level of capital invested in Debt Management investments has continued to increase, the Committee has also continued to review the valuations policy and refine the process. The use by management of independent data supporting the proposed valuations has been increased, and the quarterly valuation report includes a range indicated from all available data points, including internal DCF models, against the proposed valuation. The range and actual values are reviewed by the Committee.</p>



As part of its challenge and review process, the Committee:

- Considered the management information provided to support the Committee's review of the matter, including the strength and operation of the internal controls and management's responses to any challenges raised by the Committee members or Ernst & Young LLP;
- Sought assurance from the external Auditors as to whether and how they had considered each of these areas;
- Reviewed the consistency of the views of management and the external Auditors.

The Committee was satisfied that the application of the policy and process was appropriate during the period, and recommended the portfolio valuation to the Audit and Compliance Committee and the Board at each quarter end for approval by the Board.

## PORTFOLIO TRENDS

The Committee Chairman and management conducted a review of the valuation outcomes in the portfolio since 2012. The Committee Chairman and Group Finance Director reported to the Board in May 2015 on the key observations.

It is intended to conduct similar reviews at least annually as an additional review of the overall portfolio development, alongside the specific quarterly valuation process.

By order of the Board

**D A M Hutchison**

Chairman, Valuations Committee

13 May 2015



## READ MORE

Further information on the Valuation Committee's terms of reference can be found on our website [www.3i.com](http://www.3i.com)

# Directors' remuneration report

**“We remain committed to maintaining a remuneration framework which rewards progress in meeting the Group's strategic objectives.”**

**Jonathan Asquith**

Chairman, Remuneration Committee



## STATEMENT BY THE REMUNERATION COMMITTEE CHAIRMAN

As Remuneration Committee Chairman, I am pleased to introduce the Directors' remuneration report for the financial year 1 April 2014 to 31 March 2015 ("the year" or "FY2015") and to provide some details of the background against which the Committee's decisions have been taken in the year. References to "the current year" or "FY2016" relate to the financial year 1 April 2015 to 31 March 2016.

At our 2014 Annual General Meeting, our remuneration policy was approved. No changes are being made to that policy. The policy is also reproduced for reference from page 138 of this Annual Report.

Last year's Directors' remuneration report was our first such report published under the Large and Medium-sized Companies (Accounts and Reports) (Amendment) Regulations 2013, and we received some helpful feedback from a number of shareholders and their representatives on aspects of that report. That feedback, particularly in relation to disclosures linking performance to annual bonus outcomes, has assisted us in preparing the Directors' remuneration report for the year.

## PERFORMANCE IN THE YEAR

As we approach the end of the third year of the multi-year strategic plan announced in June 2012, I am pleased to report, as you will have read earlier in this Annual Report, that this has been another successful year for the Company. The business has continued to deliver a good flow of realisations and strong unrealised value growth driven by quality earnings growth. This, combined with the Company's continued cost discipline, has generated a total return of 20% on opening shareholders' funds. This return was achieved despite significant currency headwinds. In addition, all the objectives set out at the start of the strategic plan have been met or exceeded.

The strong performance by the Company has been reflected in the share price which has increased by 21% in the year and a 177% total shareholder return since the June 2012 strategic announcement.

The Committee's decisions concerning the Executive Directors' remuneration were made in light of these achievements against the strategic priorities which were established for the year. Further information on this assessment is provided on pages 74 to 76. Highlights of these achievements include:

### Portfolio return

A combination of strong Private Equity portfolio performance, continued delivery of Private Equity realisations at material uplifts to opening value and a very good return on the Infrastructure portfolio, generated a gross investment return of £805 million or 23% of opening portfolio value. A significant portion of this return was driven by earnings growth in the Private Equity portfolio.

### Investment

The improved levels of new investment activity in FY2014 carried through to FY2015 with four key investments completed in Private Equity: Q Holding (precision engineered elastomeric components manufacturer), Dynatech (manufacturer of engineered, mission critical protective equipment), Aspen Pumps (manufacturer of pumps and accessories for the air conditioning, heating and refrigeration industry) and Christ (distributor and retailer of affordable jewellery). The Infrastructure business also completed a €107 million investment in two oil storage facilities and committed a total of £37 million to new PPP deals, while Debt Management successfully completed £2.2 billion of new CLO issuance in the year.

However, in light of the high-priced market conditions for Private Equity and Infrastructure assets, it was important that the Company maintained an emphasis on disciplined investing. Numerous potential investments were declined for pricing reasons and only a select number of investment opportunities were pursued and completed.

### Operating profit

For many years prior to FY2014, the Company had operated at a material annual operating cash loss, which diluted capital returns to our shareholders. Annual operating cash profits have further improved from £5 million in FY2014 to £28 million for FY2015. This significantly exceeded the FY2015 target due to the 12% growth in Debt Management AUM, improved portfolio income cash generation in Private Equity and dividend proceeds from 3iN.

### Strategy, investor relations and culture

We are now at the end of the three year strategic plan that was set out by our Chief Executive, Simon Borrows, in June 2012. Each phase of the plan from the first year's Restructuring, the subsequent Transition and delivery phase and now the achievement of the strategic goal has been well communicated to, and supported by, our shareholders. As a result of these strategic changes, the Company today is now a more robust, efficient and energised operation than three years ago.

The effects of this turnaround are reflected in the long-term remuneration of the Executive Directors in two ways. We have operated LTIP schemes for key management for many years. This year is the first since 2008 in which any long-term incentive award has actually vested at 3i. The amounts received by the Executive Directors, which are entirely in line with policy, reflect the Company's excellent performance under their guidance over the last three years and the appreciation in the share price from £1.97 per share at the time of grant.

### COMMITTEE PRIORITIES AND POTENTIAL CHANGES IN THE CURRENT YEAR

The Committee remains committed to maintaining a remuneration framework which rewards progress in meeting the Group's strategic objectives.

We regularly monitor relevant guidelines and regulatory changes, and our current arrangements are fully in line with these. During the current year, the Committee will continue to follow developments, and in particular will assess the potential impact of the draft EBA guidelines on remuneration in relation to CRD IV, which may necessitate changes to our remuneration policy in FY2016. The Committee will also review its malus/clawback policies in FY2016.

The Remuneration Committee values all feedback from shareholders and hopes to receive your support at the forthcoming Annual General Meeting.

#### Jonathan Asquith

Chairman, Remuneration Committee

13 May 2015

## Directors' remuneration report continued

### POLICY REPORT

The policy as set out in the 2014 Directors' remuneration report was formally approved by shareholders at the Annual General Meeting on 17 July 2014. No amendments to the policy are required for this year and so shareholders will not be asked to vote on the policy at this year's Annual General Meeting.

The full policy is reproduced for reference from page 138.

Following the publication of the 2014 Directors' remuneration report, the Company issued a statement on its website providing further context on how the Committee would address the issue of an Executive Director participating in a carried interest scheme. For the avoidance of doubt, neither of the current Executive Directors participates in a carried interest scheme and any future Chief Executive or Group Finance Director will not be permitted to participate. Further details can be found on our website here: [http://www.3i.com/system/files/reports/3i\\_DirectorsRemunerationPolicy\\_AdditionalInformation.pdf](http://www.3i.com/system/files/reports/3i_DirectorsRemunerationPolicy_AdditionalInformation.pdf).

### THE ANNUAL REPORT OF REMUNERATION (IMPLEMENTATION REPORT)

#### Director remuneration for the year

Single total figure of remuneration for each Director

£'000	FY2015							FY2014						
	Salary/ fees	Benefits	Pension	Annual Bonus	LTIP (no performance condition)	LTIP (performance condition)	Total	Salary/ fees	Benefits	Pension	Annual Bonus	LTIP (no performance condition)	LTIP (performance condition)	Total
S A Borrows	562	15	15	2,096	696	4,894	8,278	550	17	15	2,035	605	0	3,222
J S Wilson	409	17	45	850	–	2,225	3,546	400	19	53	750	–	0	1,222
Sir Adrian Montague	295	–	–	–	–	–	295	295	–	–	–	–	–	295
J P Asquith	111	–	–	–	–	–	111	84	–	–	–	–	–	84
C J Banzsky	61	–	–	–	–	–	61	–	–	–	–	–	–	–
A R Cox	80	–	–	–	–	–	80	68	–	–	–	–	–	68
D A M Hutchison	92	–	–	–	–	–	92	31	–	–	–	–	–	31
R H Meddings	27	–	–	–	–	–	27	90	–	–	–	–	–	90
W Mesdag	–	–	–	–	–	–	–	56	–	–	–	–	–	56
M G Verluyten	72	–	–	–	–	–	72	64	–	–	–	–	–	64

- Benefits include a car allowance, provision of health insurance and, for Mrs Wilson, the value of the Share Incentive Plan matching share awards.
- Mr Borrows and Mrs Wilson received salary supplements in lieu of pension contributions of £15k and £45k respectively.
- Annual bonus awards made in respect of the year are delivered as 50% cash immediately, and 50% payable in shares deferred for four years, subject to the malus/clawback policy. These shares are released in four equal annual instalments over the four years commencing June 2016 and carry the right to receive dividends and other distributions.
- In the case of Mrs C J Banzsky the sum shown (which includes VAT) was paid to her principal employer, the Law Debenture Corporation p.l.c., which released her to serve as a non-executive Director.
- In addition to the table above, dividends or dividend equivalents on unvested deferred share awards were paid during the year (Mr Borrows £131k, Mrs Wilson £36k).
- The value shown in the LTIP (no performance condition) for Mr Borrows represents the award made in 2011 on joining the Company in recognition of awards forfeited on leaving his previous employment. The award value represents 171,087 shares vesting at a market price of 407.3 pence.
- The values shown in the LTIP (performance condition) represent the performance shares vesting from the 2012 LTIP. The shares have been valued using the 31 March 2015 closing share price (482.4 pence). Further detail is provided on page 76.
- The fees shown for the non-executive Directors include fees used to purchase shares in the Company.
- In addition to the fees shown above, Mr Borrows retained directors' fees of £67k from The British Land Company PLC and £76k from Inchcape plc, and Mrs Wilson retained directors' fees of £105k from Legal and General Group plc.

### FY2015 ANNUAL BONUS

The annual bonuses for Executive Directors for the year were awarded against a balanced scorecard of both financial and strategic measures agreed by the Committee in May 2014. The Committee uses the scorecard as a prompt and guide to judgment and considers the performance outcomes in the wider context of personal performance (including values and behaviours), risk, market and other factors.

The scorecard review was completed in the context of a very strong performance by the business, resulting in a 20% total return for the year. Highlights of this performance included:

- A strong level of realisations (£831m) from the Private Equity portfolio, delivered at a significant premium (27%) to opening value;
- Unrealised value growth of £684m in the Private Equity portfolio, underpinned by growth in earnings in portfolio companies of 19%;
- Improved origination activity resulting in increased levels of investment in Private Equity, Infrastructure and Debt Management, whilst retaining a disciplined and selective approach to investment opportunities; and
- Value uplifts and realisations from the European Infrastructure portfolio leading to a material increase in the value of 3iN.

Virtually all of the Group and business line KPIs, including those set out in the scorecard assessment shown below, have outperformed versus plan from the beginning of the year. Overall, performance for FY2015 not only exceeded plan but in all material respects improved further on the excellent performance in FY2014.

The specific metrics considered by the Committee to assess the performance of the Executive Directors in each area of strategic focus are set out below, together, where appropriate, with their associated targets.

For some metrics, particularly in the area of new investments and realisations, the Board sets expectations rather than targets. This is because the timing of acquisitions and disposals is highly sensitive to market conditions, and a more prescriptive approach would run the risk of creating perverse incentives for executives. For example, to achieve a target level of realisations may result in the earlier sale of assets than would otherwise be appropriate, or to achieve a target level of investments may result in investing at inflated prices. In practice, the Board's expectations in these areas were met or exceeded in each case.

Area of strategic focus	Weighting (%)	Metrics considered	Target/Expectation	Performance	Comments
Portfolio return	40%	Gross investment return (% of opening portfolio value)	T £526m (15%)	£805m (23%)	Gross investment return exceeded expectations and surpassed that of the previous financial year.
		Private Equity cash income	T £32m	£55m	Realisations, interest and dividends across the Private Equity portfolio were strong.
		3iN investment return	T 10%	24%	Other measures of portfolio return showed excellent progression.
Investment	30%	New capital invested in Private Equity	E n/a*	£369m	Investment performance was good overall with CLO issuance expectations met and new capital invested in Private Equity increasing on FY2014. Maintained a disciplined and selective approach to new investments in Private Equity, Infrastructure and Debt Management.
		New CLO issuance in Europe and US	E n/a*	£2.2bn	
		New 3iN capital committed in Core/PPP	E n/a*	€107m/£37m	
Operating profit	20%	Operating cash profit	T £1m	£28m	Operating cash profit for the year was above targets and showed strong performance and growth compared with FY2014.
		Operating costs as a percentage of AUM	T 1.0%	1.0%	
		Group underlying FM profits (margin %)	T £30m (24%)	£33m (26%)	Underlying FM profits and operating costs remained steady.
Strategy, investor relations and culture	10%	Achievement of strategy, investor relations and culture targets is measured against a balanced scorecard of objectives set by the Remuneration Committee.			Successful execution of the three-year strategic plan set out in June 2012. 3i is now a more resilient business, both commercially and financially. Positive feedback from shareholders who have been very supportive of the progress in the implementation of the strategy. Completion of transition to a new operating system, consolidating reporting, improving efficiency and eliminating 19 legacy systems. 3i's Graduate Programme successfully launched with the first graduates starting this autumn.

T = Target E = Expectation

\* Expectations are not disclosed as they are commercially sensitive

## Directors' remuneration report continued

In the light of the achievements detailed above, and the exceptional performance of the Group in the year, the Committee awarded Mr Borrows a bonus in respect of FY2015 of £2,096k (being 92.5% of his maximum bonus opportunity) and awarded Mrs Wilson a bonus in respect of FY2015 of £850k (being 82.5% of her maximum bonus opportunity). In each case, 50% of the award will be paid in cash immediately, with the remaining 50% being deferred into shares vesting in equal instalments over four years.

### SHARE AWARDS VESTING IN 2015 SUBJECT TO PERFORMANCE CONDITIONS

#### 2012 Long-term incentive award

The long-term incentive awards granted in July 2012 to Mr Borrows and Mrs Wilson were subject to a performance condition based on annualised Total return on equity over the three financial years to 31 March 2015. The table below shows the achievement against this condition and the resulting proportion of the awards that will vest in July 2015.

Measure	Threshold		Maximum		Actual	
	Performance	% vesting	Performance	% vesting	Performance	% vesting
Annualised three-year total return on equity	10% pa	20%	18% pa	100%	16.8%	90.85%

The table below shows the grants made to each executive Director on 10 July 2012 at a share price of 197p and the resulting number of shares that will vest due to the achievement against the Total return on equity performance condition. The value of the shares vesting has been included in the single figure table using the 31 March 2015 closing share price of 482.4 pence.

	Basis of award at grant	Face Value at grant	Number of shares awarded at 197p per share	% vesting	Number of shares vesting	Value of share vesting at 482.4p per share
S A Borrows	Face value award of 4 times base salary of £550k	£2,200k	1,116,751	90.85%	1,014,568	£4,894k
J S Wilson	Face value award of 2.5 times base salary of £400k	£1,000k	507,614	90.85%	461,167	£2,225k

The proportion of the award vesting will be released 50% in July 2015, 25% in July 2016 and 25% in July 2017 together with the value of dividends that would have been received during the release period.

### CHANGE IN THE REMUNERATION OF THE CHIEF EXECUTIVE COMPARED TO OTHER EMPLOYEES

The table below shows the percentage change in remuneration awarded to the Chief Executive and employees as a whole, between the year to 31 March 2014 and the year to 31 March 2015.

	Salary	Benefits	Bonus
Chief Executive	3%	0%	3%
All other employees	5%	0%	17%



## DETAILS OF SHARE AWARDS GRANTED IN THE YEAR

### LTIP

Performance share awards were granted to the two Executive Directors during the year as shown in the table below.

Description of award	A performance share based award, which releases shares, subject to satisfying the performance conditions, 50% on the third anniversary of grant and 25% on the fourth and fifth anniversaries.
Face value	Chief Executive – 400% of salary, being 567,449 shares.  Group Finance Director – 250% of salary, being 257,931 shares.  The share price used to make the award was the average mid-market closing price over the five working days starting with the day of the announcement of the 2014 annual results (387.7p).
Performance period	1 April 2014 to 31 March 2017.
Performance targets	50% of the award is based on absolute TSR measured over the performance period, and vests: <ul style="list-style-type: none"> <li>■ 0% vesting below 10% pa TSR;</li> <li>■ 20% vesting at 10% pa TSR;</li> <li>■ Straight-line vesting between 10% and 18% pa TSR; and</li> <li>■ 100% vesting at 18% pa TSR.</li> </ul> 50% of the award is based on relative TSR measured against the FTSE 250 Index over the performance period, and vests: <ul style="list-style-type: none"> <li>■ 0% vesting for below median performance against the index;</li> <li>■ 25% vesting for median performance against the index;</li> <li>■ 100% vesting for upper quartile performance against the index; and</li> <li>■ Straight-line vesting between median and upper quartile performance.</li> </ul>
Remuneration Committee discretion	The Committee can reduce any award which would otherwise vest if gross debt or gearing targets are missed.

## DEFERRED BONUSES AWARDED IN FY2015

Under the Deferred Bonus Plan, share awards were granted to the Executive Directors on 11 June 2014 in respect of FY2014 performance with a face value of £813,600 (209,956 shares) for the Chief Executive and £300,000 (77,379 shares) for the Group Finance Director. These face values were reported in the 2014 single total figure of remuneration for each Director. The share price used to calculate face value was the average of the mid-market closing prices over the five working days starting with the date of the announcement of the Company's results for the year ended 31 March 2014 (14 May 2014 to 20 May 2014), which was 387.7 pence. These awards are not subject to further performance conditions and vest in four equal instalments annually from 1 June 2015.

## SHARE INCENTIVE PLAN

During the year Mrs Wilson participated in the HMRC approved Share Incentive Plan which during the year allowed employees to invest up to £150 per month from pre-tax salary in ordinary shares ("partnership shares"). For each partnership share, the Company grants two free ordinary shares ("matching shares") which are normally forfeited if employment ceases within three years of grant. Dividends are reinvested in further ordinary shares ("dividend shares").

During the year Mrs Wilson purchased 409 partnership shares, and received 818 matching shares and 549 dividend shares at prices ranging between £3.8173 and £4.923 per share, with an average price of £4.244.

## PENSION ARRANGEMENTS

Mr Borrowes and Mrs Wilson received salary supplements in lieu of pension of £15k and £45k respectively.

## PAYMENTS TO PAST DIRECTORS

No payments were made to past Directors in the year.

## PAYMENTS FOR LOSS OF OFFICE

No payments to Directors for loss of office have been made in the year.

## Directors' remuneration report continued

## STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS

The Company's share ownership and retention policy requires Executive Directors to build up over time, and thereafter maintain, a shareholding in the Company's shares equivalent to at least 3.0 times gross salary in the case of the Chief Executive and 1.5 times gross salary for the Group Finance Director. In addition, shareholding targets have been introduced for other members of Executive Committee at 1.5 times their gross salary levels and for partners in the Group's businesses at 1.0 times their gross salaries.

Details of Directors' interests (including interests of their connected persons) in the Company's shares as at 31 March 2015 are shown below. The share price on 31 March 2015 was £4.824.

	Shares					Current shareholding (% salary)
	Owned outright <sup>1</sup>	Deferred shares	Subject to performance <sup>2</sup>	Unexercised share options	Shareholding requirement	
S A Borrows <sup>3</sup>	9,580,419	608,617	2,297,525	–	300%	8,158%
J S Wilson <sup>3</sup>	67,590	196,586	1,044,329	21,495	150%	79%
						Shares owned outright
Sir Adrian Montague <sup>3</sup>						90,905
J P Asquith <sup>3</sup>						10,602
C Banszky <sup>3</sup>						6,000
A R Cox <sup>3</sup>						22,900
D Hutchison <sup>3</sup>						53,966
M G Verluyten <sup>3</sup>						18,000

1 The share interests shown for Mrs Wilson include shares held in the 3i Group Share Incentive Plan. The owned outright column includes partnership and dividend shares under the SIP. The deferred shares column includes matching shares under the SIP.

2 The number of shares shown under the heading "Subject to performance" includes 100% of the 2012 Performance Share award. It is expected that the performance target will be met with 90.85% of the shares being released as described on page 76.

3 Directors are restricted from hedging their exposure to the 3i share price.

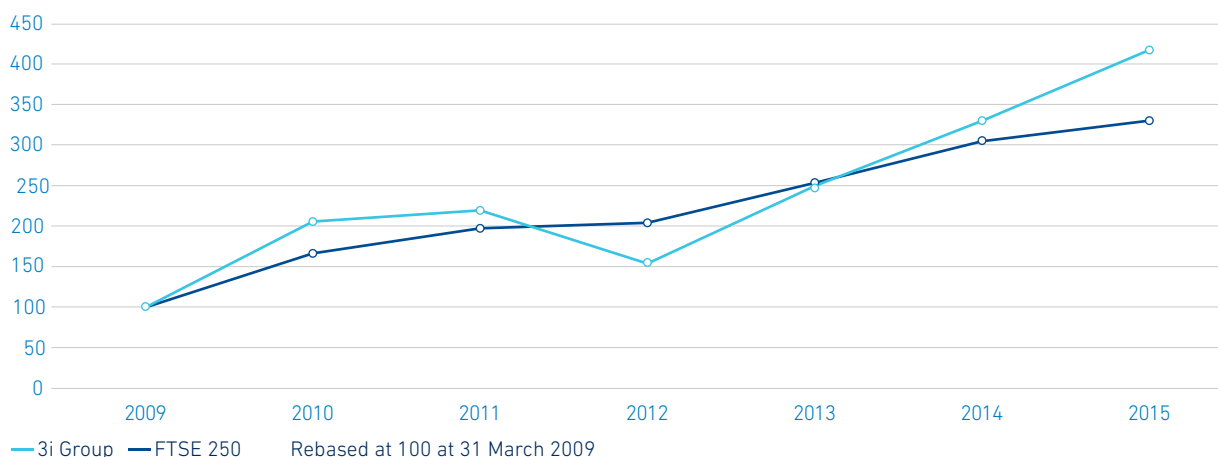
From 1 April 2015 to 1 May 2015, Mrs Wilson became interested in a further 29 shares overall outright (SIP Partnership Shares) and a further 58 deferred shares (SIP Matching Shares). There were no other changes to Directors' share interests in that period.

## PERFORMANCE GRAPH AND TABLE

## TSR Graph

This graph compares the Company's total shareholder return for the six financial years to 31 March 2015 with the total shareholder return of the FTSE 250 Index.

## 3i total shareholder return vs FTSE 250 total return over the six years to 31 March 2015



**Table of historic Chief Executive data**

Year	Chief Executive	Single figure of total remuneration £'000	Percentage of maximum bonus paid	Percentage of maximum LTIP vesting
FY2015	S A Borrows	8,278	92.5%	90.85%
FY2014	S A Borrows	3,222	92.5%	0%
FY2013 <sup>1</sup>	S A Borrows	2,932	90%	n/a
	M J Queen	429	0%	0%
FY2012	M J Queen	641	0%	0%
FY2011	M J Queen	1,305	54%	0%
FY2010	M J Queen	1,989	75%	0%

<sup>1</sup> M J Queen ceased to be a Director on 16 May 2012. Mr Borrows was appointed Chief Executive on 17 May 2012 having previously been Chief Investment Officer.

**RELATIVE IMPORTANCE OF SPEND ON PAY**

	2014/15	2013/14	Change %
Remuneration of all employees	£85m	£77m	10.4%
Dividends paid to shareholders	£183m	£114m	60.5%

**STATEMENT OF IMPLEMENTATION OF THE REMUNERATION POLICY IN THE COMING YEAR**

The table below sets out how the Committee intends to operate the remuneration policy in FY2016.

Policy element	Implementation of policy during FY2016
Base salary	<p>A Group-wide 3% increase to salaries will take place in FY2016, which will also be applied to Executive Director salaries. Effective from 1 July 2015, salaries for the Executive Directors will therefore be as follows:</p> <ul style="list-style-type: none"> <li>■ Chief Executive: £583,495 (+3%)</li> <li>■ Group Finance Director: £424,360 (+3%)</li> </ul>
Pension	<p>No changes to the current arrangements are proposed for FY2016. The Executive Directors will continue to receive a pension contribution or salary supplement as follows:</p> <ul style="list-style-type: none"> <li>■ Chief Executive: £15k</li> <li>■ Group Finance Director: 12% of salary</li> </ul>
Benefits	<p>No changes to the current arrangements are proposed for FY2016.</p> <p>Benefits will continue to include a car allowance, provision of health insurance and any Share Incentive Plan matching share awards.</p>
Annual bonus	<p>The maximum annual bonus opportunities for FY2016 will remain unchanged, in line with the remuneration policy, as follows:</p> <ul style="list-style-type: none"> <li>■ Chief Executive: 400% of salary</li> <li>■ Group Finance Director: 250% of salary</li> </ul> <p>Awards over 75% of this maximum will be made only in exceptional circumstances.</p> <p>Any bonus will be awarded based on a balanced scorecard of both financial and strategic measures agreed by the Committee, alongside a consideration of the wider context of personal performance (including values and behaviours) risk, market and other factors.</p> <p>Measures for the FY2016 scorecard are based 85% on financial measures (50% portfolio returns, 25% investment management and 10% operating performance) and 15% on strategic and people objectives. They are calibrated to current business strategy and will evolve year on year as the Group's situation and priorities develop.</p> <p>The Committee considers that the specific targets and expectations contained in the FY2016 scorecard are commercially sensitive and therefore will not be disclosed in advance. We will report to shareholders next year on performance and the resulting bonus outturns.</p> <p>At least 50% of any bonus award will be deferred into shares vesting in equal instalments over four years.</p> <p>Under the Company's malus and clawback policy, any deferred bonus may be forfeited or reduced prior to vesting in exceptional circumstances on such basis as the Committee considers fair, reasonable and proportionate. This would include material misstatement of Group financial statements, or cases where an individual is deemed to have caused a material loss for the Group as a result of reckless, negligent or wilful actions or inappropriate values or behaviour.</p>

## Directors' remuneration report continued

Policy element	Implementation of policy during FY2016										
Long-term incentive plan	<p>Awards under the long-term incentive plan in FY2016 will be made as follows:</p> <ul style="list-style-type: none"> <li>■ Chief Executive: 400% of salary</li> <li>■ Group Finance Director: 250% of salary</li> </ul> <p>Performance will be measured over a three year period and will be determined by the Remuneration Committee. Performance measures remained unchanged from the previous year and will be as follows:</p> <p>50% of the award is based on absolute TSR measured over the performance period, and vests:</p> <ul style="list-style-type: none"> <li>■ 0% vesting below 10% pa TSR;</li> <li>■ 20% vesting at 10% pa TSR;</li> <li>■ Straight-line vesting between 10% and 18% pa TSR; and</li> <li>■ 100% vesting at 18% pa TSR.</li> </ul> <p>50% of the award is based on relative TSR measured against the FTSE 350 Index* over the performance period, and vests:</p> <ul style="list-style-type: none"> <li>■ 0% for below median performance against the index;</li> <li>■ 25% for median performance against the index;</li> <li>■ 100% for upper quartile performance against the index; and</li> <li>■ Straight-line vesting between median and upper quartile performance.</li> </ul> <p>*Awards under the FY2015 plan were measured against the FTSE 250 Index. After a review, the Committee has decided that the FTSE 350 Index is a more appropriate index to measure the Company's relative TSR, as this Index reflects both the variety of the Company's portfolio of international investments as well as the diverse currencies in which those investments are denominated.</p> <p>Under the Company's malus and clawback policy, any long-term incentive award may be forfeited or reduced prior to vesting in exceptional circumstances on such basis as the Committee considers fair, reasonable and proportionate. This would include material misstatement of Group financial statements, or cases where an individual is deemed to have caused a material loss for the Group as a result of reckless, negligent or wilful actions or inappropriate values or behaviour.</p>										
Shareholding requirements	<p>No changes to the current arrangements are proposed for FY2016. Shareholding requirements will therefore remain as follows:</p> <ul style="list-style-type: none"> <li>■ Chief Executive: 300% of salary</li> <li>■ Group Finance Director: 150% of salary</li> </ul>										
Non-executive Director fees	<p>No changes to the current arrangements are proposed for FY2016. Fees for the non-executive Directors will therefore remain as follows:</p> <p><b>Chairman fee:</b> £265,000 plus £30,000 in 3i shares</p> <p><b>Non-executive Directors:</b></p> <table> <tr> <td>Board membership fee:</td><td>£50,000 plus 3,000 3i shares.</td></tr> <tr> <td>Deputy Chairman (including SID fee)</td><td>£40,000</td></tr> <tr> <td>Senior Independent Director fee:</td><td>£10,000</td></tr> <tr> <td>Committee Chairman:</td><td>£20,000</td></tr> <tr> <td>Committee member:</td><td>£8,000</td></tr> </table> <p>Committee fees are payable in respect of the Audit and Compliance Committee, Remuneration Committee and Valuations Committee.</p>	Board membership fee:	£50,000 plus 3,000 3i shares.	Deputy Chairman (including SID fee)	£40,000	Senior Independent Director fee:	£10,000	Committee Chairman:	£20,000	Committee member:	£8,000
Board membership fee:	£50,000 plus 3,000 3i shares.										
Deputy Chairman (including SID fee)	£40,000										
Senior Independent Director fee:	£10,000										
Committee Chairman:	£20,000										
Committee member:	£8,000										

## CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

The following Directors were members of the Remuneration Committee during the year:

### MEMBERSHIP DURING THE YEAR

Name	Membership status
Jonathan Asquith (Chairman)	Non-executive Director Member since March 2011 Chairman since May 2011
Alistair Cox	Non-executive Director Member since July 2011
David Hutchison	Non-executive Director Member since December 2013

The Committee's terms of reference are available on the Company's website.

The Committee appointed Deloitte LLP as advisers in 2013 and during the year they provided the Committee with external, independent advice.

Deloitte are members of the Remuneration Consultants Group and as such, voluntarily operate under the code of conduct in relation to executive remuneration consulting in the UK. During the year, Deloitte LLP also provided 3i with certain tax advisory services. The Committee has reviewed the advice provided during the year and is satisfied that it has been objective and independent. The total fees for advice during the year were £44,200 (excluding VAT).

The Chief Executive, the Remuneration Director and the General Counsel, Company Secretary & Head of HR attend Committee meetings by invitation, other than when their personal remuneration is being discussed.

### RESULT OF VOTING AT THE 2014 AGM

At the 2014 AGM, held on 17 July 2014, votes cast in respect of the Directors' remuneration report were:

Resolution	Votes for	Votes against	Total votes cast	Votes withheld
Approval of the remuneration report (other than the part containing the Directors' remuneration policy)	690,675,950 (98.53%)	10,279,207 (1.47%)	700,955,157	15,466,533
Approval of the Directors' remuneration policy	701,059,781 (98.10%)	13,563,200 (1.90%)	714,622,981	1,798,709

### AUDIT

The tables in this report (including the Notes thereto) on pages 74 to 79 have been audited by Ernst & Young LLP.

By order of the Board

**Jonathan Asquith**

Chairman, Remuneration Committee

13 May 2015

# Audited financial statements

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# Consolidated statement of comprehensive income

## FOR THE YEAR TO 31 MARCH

	Notes	2015 £m	2014 (restated) <sup>1</sup> £m
Realised profits over value on the disposal of investments	2	54	146
Unrealised profits on the revaluation of investments	3	236	81
Fair value movements on investment entity subsidiaries	11	530	433
		<b>820</b>	<b>660</b>
Portfolio income			
Dividends		36	25
Income from loans and receivables		38	29
Fees receivable		6	7
Foreign exchange on investments		(49)	(45)
<b>Gross investment return</b>		<b>851</b>	<b>676</b>
Fees receivable from external funds		80	75
Operating expenses	4	(122)	(136)
Interest received		3	3
Interest paid		(49)	(54)
Movement in the fair value of derivatives		(1)	10
Exchange movements		(61)	(42)
Income from fair value subsidiaries		1	8
Carried interest			
Carried interest and performance fees receivable	13	80	3
Carried interest and performance fees payable	13	(72)	(17)
Acquisition related earn-out charges		(8)	(6)
<b>Operating profit before tax</b>		<b>702</b>	<b>520</b>
Income taxes	7	(2)	(3)
<b>Profit for the year</b>		<b>700</b>	<b>517</b>
Other comprehensive expense that may be reclassified to the income statement			
Exchange differences on translation of foreign operations		(27)	(50)
Other comprehensive income that will not be reclassified to the income statement			
Re-measurements of defined benefit plans	26	(14)	11
<b>Other comprehensive income for the year</b>		<b>(41)</b>	<b>(39)</b>
<b>Total comprehensive income for the year ("Total return")</b>		<b>659</b>	<b>478</b>
Earnings per share			
Basic (pence)	8	73.9	54.8
Diluted (pence)	8	72.9	54.5
Dividend per share			
Interim dividend per share paid (pence)	9	6.0	6.7
Final dividend per share (pence)	9	14.0	13.3

1 Restated. See Note 31.

# Consolidated statement of financial position

**AS AT 31 MARCH**

	Notes	2015 £m	2014 (restated) <sup>1</sup> £m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments			
Quoted investments	10	399	258
Unquoted investments	10	1,272	1,324
Investments in investment entities	11	2,079	1,909
<b>Investment portfolio</b>		<b>3,750</b>	<b>3,491</b>
Carried interest and performance fees receivable	13	43	17
Intangible assets	14	19	25
Retirement benefit surplus	26	136	137
Property, plant and equipment		4	5
Deferred income taxes	7	3	3
<b>Total non-current assets</b>		<b>3,955</b>	<b>3,678</b>
<b>Current assets</b>			
Carried interest and performance fees receivable	13	45	–
Other current assets	15	54	76
Derivative financial instruments		–	2
Cash and cash equivalents		861	674
<b>Total current assets</b>		<b>960</b>	<b>752</b>
<b>Total assets</b>		<b>4,915</b>	<b>4,430</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Carried interest and performance fees payable	13	(72)	(30)
Acquisition related earn-out charges payable		(10)	(18)
Loans and borrowings	16	(815)	(849)
B shares		–	(6)
Retirement benefit deficit	26	(19)	(14)
Deferred income taxes	7	(1)	(2)
Provisions	17	(5)	(5)
<b>Total non-current liabilities</b>		<b>(922)</b>	<b>(924)</b>
<b>Current liabilities</b>			
Trade and other payables	18	(152)	(166)
Carried interest and performance fees payable	13	(13)	(6)
Acquisition related earn-out charges payable		(17)	(10)
Derivative financial instruments		–	(4)
Current income taxes	7	(2)	(4)
Provisions	17	(3)	(8)
<b>Total current liabilities</b>		<b>(187)</b>	<b>(198)</b>
<b>Total liabilities</b>		<b>(1,109)</b>	<b>(1,122)</b>
<b>Net assets</b>		<b>3,806</b>	<b>3,308</b>
<b>Equity</b>			
Issued capital	19	719	718
Share premium		784	782
Capital redemption reserve		43	43
Share-based payment reserve		31	19
Translation reserve		216	243
Capital reserve		1,519	1,050
Revenue reserve		573	542
Own shares	20	(79)	(89)
<b>Total equity</b>		<b>3,806</b>	<b>3,308</b>

<sup>1</sup> Restated. See Note 31.

**Sir Adrian Montague**  
Chairman

13 May 2015

# Consolidated statement of changes in equity

## FOR THE YEAR TO 31 MARCH

2015	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Translation reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Total equity at the start of the year <sup>1</sup>	718	782	43	19	243	1,050	542	(89)	3,308
Income for the year						599	101		700
Exchange differences on translation of foreign operations					(27)				(27)
Re-measurements of defined benefit plans						(14)			(14)
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(27)</b>	<b>585</b>	<b>101</b>	<b>–</b>	<b>659</b>
Share-based payments				19					19
Release on forfeiture of share options				(7)			7		–
Exercise of share awards						(10)		10	–
Ordinary dividends							(77)		(77)
Additional dividends						(106)			(106)
Issue of ordinary shares	1	2							3
<b>Total equity at the end of the year</b>	<b>719</b>	<b>784</b>	<b>43</b>	<b>31</b>	<b>216</b>	<b>1,519</b>	<b>573</b>	<b>(79)</b>	<b>3,806</b>

2014 (restated) <sup>1</sup>	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Translation reserve £m	Capital reserve £m	Revenue reserve £m	Own shares £m	Total equity £m
Total equity at the start of the year	718	780	43	17	293	700	487	(104)	2,934
Income for the year						392	125		517
Exchange differences on translation of foreign operations					(50)				(50)
Re-measurements of defined benefit plans						11			11
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(50)</b>	<b>403</b>	<b>125</b>	<b>–</b>	<b>478</b>
Share-based payments				8					8
Release on forfeiture of share options				(6)			6		–
Exercise of share awards						(15)		15	–
Ordinary dividends							(76)		(76)
Additional dividends						(38)			(38)
Issue of ordinary shares		2							2
<b>Total equity at the end of the year</b>	<b>718</b>	<b>782</b>	<b>43</b>	<b>19</b>	<b>243</b>	<b>1,050</b>	<b>542</b>	<b>(89)</b>	<b>3,308</b>

1 Restated. See Note 31.

# Consolidated cash flow statement

## FOR THE YEAR TO 31 MARCH

	2015 £m	2014 (restated) <sup>1</sup> £m
<b>Cash flow from operating activities</b>		
Purchase of investments	(116)	(148)
Proceeds from investments	270	454
Cash inflow from fair value subsidiaries	272	62
Portfolio interest received	14	6
Portfolio dividends received	35	25
Portfolio fees received	10	6
Fees received from external funds	77	75
Carried interest and performance fees received	6	5
Carried interest and performance fees paid	(14)	(15)
Acquisition related earn-out fees paid	(10)	–
Operating expenses	(116)	(131)
Interest received	3	3
Interest paid	(54)	(57)
Income taxes paid	(5)	(7)
<b>Net cash flow from operating activities</b>	<b>372</b>	<b>278</b>
<b>Cash flow from financing activities</b>		
Issue of shares	3	–
Repurchase of B shares	(6)	–
Dividend paid	(183)	(114)
Repayment of short-term borrowings	–	(164)
Net cash flow from derivatives	9	(32)
<b>Net cash flow from financing activities</b>	<b>(177)</b>	<b>(310)</b>
<b>Cash flow from investing activities</b>		
Net cash flow from deposits	–	90
<b>Net cash flow from investing activities</b>	<b>–</b>	<b>90</b>
<b>Change in cash and cash equivalents</b>	<b>195</b>	<b>58</b>
Cash and cash equivalents at the start of year	674	633
Effect of exchange rate fluctuations	(8)	(17)
<b>Cash and cash equivalents at the end of year</b>	<b>861</b>	<b>674</b>

1 Restated. See Note 31.

# Company statement of financial position

## AS AT 31 MARCH

	Notes	2015 £m	2014 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Investments			
Quoted investments	10	399	258
Unquoted investments	10	1,163	1,283
<b>Investment portfolio</b>		<b>1,562</b>	<b>1,541</b>
Carried interest and performance fees receivable		33	8
Interests in Group and fair value entities	22	1,561	1,735
<b>Total non-current assets</b>		<b>3,156</b>	<b>3,284</b>
<b>Current assets</b>			
Other current assets	15	341	303
Derivative financial instruments		–	2
Cash and cash equivalents		735	605
<b>Total current assets</b>		<b>1,076</b>	<b>910</b>
<b>Total assets</b>		<b>4,232</b>	<b>4,194</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Carried interest and performance fees payable		(2)	(2)
Acquisition related earn-out charges payable		(10)	(16)
Loans and borrowings	16	(815)	(849)
B shares		–	(6)
<b>Total non-current liabilities</b>		<b>(827)</b>	<b>(873)</b>
<b>Current liabilities</b>			
Trade and other payables	18	(327)	(292)
Acquisition related earn-out charges payable		(11)	(10)
Derivative financial instruments		–	(4)
<b>Total current liabilities</b>		<b>(338)</b>	<b>(306)</b>
<b>Total liabilities</b>		<b>(1,165)</b>	<b>(1,179)</b>
<b>Net assets</b>		<b>3,067</b>	<b>3,015</b>
<b>Equity</b>			
Issued capital	19	719	718
Share premium		784	782
Capital redemption reserve		43	43
Share-based payment reserve		31	19
Capital reserve		1,400	1,368
Revenue reserve		90	85
<b>Total equity</b>		<b>3,067</b>	<b>3,015</b>

Sir Adrian Montague  
Chairman

13 May 2015

# Company statement of changes in equity

2015	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Total equity £m
Total equity at the start of the year	718	782	43	19	1,368	85	3,015
Profit for the year					138	75	213
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>138</b>	<b>75</b>	<b>213</b>
Share-based payments				19			19
Release on forfeiture of share options				(7)		7	–
Ordinary dividends						(77)	(77)
Additional dividends					(106)		(106)
Issue of ordinary shares	1	2					3
<b>Total equity at the end of the year</b>	<b>719</b>	<b>784</b>	<b>43</b>	<b>31</b>	<b>1,400</b>	<b>90</b>	<b>3,067</b>

2014	Share capital £m	Share premium £m	Capital redemption reserve £m	Share-based payment reserve £m	Capital reserve £m	Revenue reserve £m	Total equity £m
Total equity at the start of the year	718	780	43	17	1,336	144	3,038
Profit for the year					70	11	81
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>70</b>	<b>11</b>	<b>81</b>
Share-based payments				8			8
Release on forfeiture of share options				(6)		6	–
Ordinary dividends						(76)	(76)
Additional dividends					(38)		(38)
Issue of ordinary shares		2					2
<b>Total equity at the end of the year</b>	<b>718</b>	<b>782</b>	<b>43</b>	<b>19</b>	<b>1,368</b>	<b>85</b>	<b>3,015</b>



# Company cash flow statement

## FOR THE YEAR TO 31 MARCH

	2015 £m	2014 £m
<b>Cash flow from operating activities</b>		
Purchase of investments	(28)	(108)
Proceeds from investments	270	454
Net distributions/(drawdowns) from subsidiaries	143	(217)
Portfolio interest received	11	6
Portfolio dividends received	29	25
Portfolio fees received	(1)	(2)
Carried interest and performance fees received	1	–
Carried interest and performance fees paid	(11)	–
Operating expenses	(44)	–
Interest received	3	3
Interest paid	(54)	(57)
Income taxes paid	–	–
<b>Net cash flow from operating activities</b>	<b>319</b>	<b>104</b>
<b>Cash flow from financing activities</b>		
Dividend paid	(183)	(114)
Issue of shares	3	–
Repurchase of B shares	(6)	–
Net cash flow from derivatives	9	(32)
<b>Net cash flow from financing activities</b>	<b>(177)</b>	<b>(146)</b>
<b>Cash flow from investing activities</b>		
Net cash flow from deposits	–	90
<b>Net cash flow from investing activities</b>	<b>–</b>	<b>90</b>
<b>Change in cash and cash equivalents</b>	<b>142</b>	<b>48</b>
Cash and cash equivalents at the start of year	605	573
Effect of exchange rate fluctuations	(12)	(16)
<b>Cash and cash equivalents at the end of year</b>	<b>735</b>	<b>605</b>

# Significant accounting policies

## REPORTING ENTITY

3i Group plc (the "Company") is a public limited company incorporated and domiciled in England and Wales. The Consolidated financial statements ("the Group accounts") for the year to 31 March 2015 comprise the financial statements of the Company and its consolidated subsidiaries (collectively, "the Group").

The Group accounts have been prepared and approved by the Directors in accordance with Section 395 of the Companies Act 2006 and the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008. The Company has taken advantage of the exemption in Section 408 of the Companies Act 2006 not to present its Company Statement of comprehensive income and related Notes.

A number of key accounting policies are disclosed below, but where possible, accounting policies have been shown as part of the Note that they specifically relate to in order to assist the reader's understanding.

## A COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Group accounts have been prepared and approved by the Directors in accordance with all relevant IFRSs as issued by the International Accounting Standards Board ("IASB"), and interpretations issued by the IFRS Interpretations Committee, endorsed by the European Union ("EU").

In the year the Group adopted the following amendment:

### IFRS 10 (Revised) – Consolidated Financial Statements

The IASB issued a narrow scope amendment to IFRS 10 in December 2014, and subsequently the Group has revisited and is now consolidating two Debt Management entities and a small number of subsidiaries rather than fair valuing them in the IFRS financial statements. This is due to additional guidance in the narrow scope amendment clarifying the treatment of entities which invest for capital appreciation but also provide investment related services. The Group has chosen to adopt the changes provided in the narrow scope amendment early, and has applied the change retrospectively. The change has no effect on total return or net asset value as reported in the Group's prior year IFRS financial statements. Comparative information has been restated and the effect is shown in Note 31.

The following standards, amendments and interpretations have been issued with implementation dates, subject to EU endorsement in some cases, which do not impact on these financial statements:

		Effective for annual periods beginning on or after
IFRS	Annual improvements 2010 to 2012 and 2011 to 2013	1 July 2014
IFRS	Annual improvements 2012 to 2014	1 July 2016
IFRS 15	Revenue from contracts with customers	1 January 2017
IFRS 9	Financial instruments	1 January 2018

The impact of future standards and amendments on the financial statements is being assessed by the Group and the Company.

## B BASIS OF PREPARATION

The financial statements are prepared on a going concern basis as disclosed in the Directors' Report.

## C BASIS OF CONSOLIDATION

### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control, as defined by IFRS 10, is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which the Group effectively obtains control. They are de-consolidated from the date that control ceases.

3i Group plc is an investment entity and, as such, does not consolidate the investment entities it controls. Most of the Group's interests in subsidiaries are recognised at fair value through profit or loss. Those subsidiaries which provide investment related services, such as advisory, management or employment services are not classified at fair value through profit and loss and continue to be consolidated unless they are deemed investment entities, in which case they are fair valued.

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Under the acquisition method of accounting, with some limited exceptions, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any non-controlling interest is measured either at fair value or at the non-controlling interest's proportion of the net assets acquired. Acquisition related costs are accounted for as expenses when incurred, unless directly related to the issue of debt or equity securities. Any excess of the cost of acquisition over net assets is capitalised as goodwill. All intra-group balances, transactions, income and expenses are eliminated.

### (ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Investments that are held as part of the Group's investment portfolio are carried in the statement of financial position at fair value even though the Group may have significant influence over those companies.

### (iii) Joint ventures

Interests in joint ventures that are held as part of the Group's investment portfolio are carried in the balance sheet at fair value.

#### (iv) Composition of the Group

The Group is made up of several different types of subsidiaries. The Group re-assesses the function performed by each type of subsidiary to determine its treatment under the IFRS 10 exception from consolidation. The types of subsidiaries and their treatment under IFRS 10 are as follows:

##### **General Partners (GPs) – Consolidated**

- General Partners provide investment management services and do not hold any direct investments in portfolio assets. These entities are not investment entities.

##### **Investment managers/advisers – Consolidated**

- These entities provide investment related services through the provision of investment management or advice. They do not hold any direct investments in portfolio assets. These entities are not investment entities.

##### **Investment managers/advisers which also hold investments – Consolidated**

- These entities provide investment related services through the provision of investment management or advice and also hold investments in managed assets, typically due to regulatory reasons or investor expectations. The primary purpose of these entities is to provide investment related services and therefore they are not classified as investment entities.

##### **Holding companies of investment managers/advisers – Consolidated**

- These entities provide investment related services through their subsidiaries. They do not hold any direct investment in portfolio assets and these entities are not investment entities.

##### **Limited Partnerships and other intermediate investment holding structures – Fair valued**

- The Group makes investments in portfolio assets through its ultimate parent company as well as through other limited partnership and corporate subsidiaries which the Group has created to align the interests of the investment teams with the performance of the assets through the use of various carried interest schemes. The purpose of these limited partnerships and corporate holding vehicles, many of which also provide investment related services, is to invest for investment income and capital appreciation. These partnerships meet the definition of an investment entity and are classified at fair value through the profit and loss.

##### **Portfolio investments – Fair valued**

- Following the introduction of IFRS 10, the test for accounting subsidiaries has been altered to take wider factors of control as well as actual equity ownership into account. This has resulted in 30 investments being classified as accounting subsidiaries. In accordance with the investment entity exception, these entities have been held at fair value with movements in fair value going through the Statement of comprehensive income. With one exception (Palace Street I) none of these subsidiaries is a UK Companies Act subsidiary.

##### **Structured entities – Fair valued**

- The Group has interests in a number of unconsolidated structured entities, their current carrying value and a description of their activities is included in Note 29.

## **D CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. UK company law and IFRS require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. The Group's estimates and assumptions are based on historical experience and expectation of future events and are reviewed periodically. The actual outcome may be materially different from that anticipated.

The judgements and assumptions involved in the Group's accounting policies that are considered by the Board to be the most important to the portrayal of its financial condition are the fair valuation of the investment portfolio and the fair valuation of each investment entity subsidiary. The investment portfolio is held at fair value and further detail on the valuation methodology is disclosed in Note 10. Given the importance of this area, the Board has a separate Valuations Committee to review the valuations policies, process and application to individual investments. A report on the activities of the Valuations Committee is included in the Governance section of the Annual report.

Further detail on the assessment as an investment entity is as follows:

#### **(a) Assessment as an investment entity**

Entities that meet the definition of an investment entity within IFRS 10 are required to account for most investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit and loss.

The Board has concluded that the Company continues to meet the definition of an investment entity as its strategic objective of investing in portfolio investments and providing investment management services to investors for the purpose of generating returns in the form of investment income and capital appreciation remains unchanged.

The Group is required to determine the degree of control or influence the Group exercises and the form of any control to ensure that the financial treatment is accurate. Following the IASB's narrow scope amendment to IFRS 10, issued in December 2014, the Company revisited its assessment of all of its subsidiaries and has consolidated two Debt Management entities and reclassified a small number of subsidiaries. Comparative information has been restated to reflect the adoption of the amendment to IFRS 10 and the impact is shown in Note 31. Further detail on our detailed review of our application of IFRS 10, including the amendment, can be found at the end of the Financial Review section on pages 33 to 37.

## Significant accounting policies continued

### (b) Valuation of the defined benefit scheme

The Group also considers the valuation of the IAS 19 defined benefit scheme to be a significant estimate. The Group reviews its assumptions annually with its independent actuaries. Further detail on the scheme and the assumptions applied can be found in Note 26 of the financial statements.

## E OTHER ACCOUNTING POLICIES

### A) Revenue Recognition

Gross investment return is equivalent to "revenue" for the purposes of IAS 1. It represents the overall increase in net assets from the investment portfolio net of deal-related costs and includes foreign exchange movements in respect of the investment portfolio. Investment income is analysed into the following components:

- i. Realised profits or losses over value on the disposal of investments are the difference between the fair value of the consideration received less any directly attributable costs, on the sale of equity and the repayment of loans and receivables, and its carrying value at the start of the accounting period, converted into sterling using the exchange rates in force at the date of disposal.
- ii. Unrealised profits or losses on the revaluation of investments are the movement in the carrying value of investments between the start and end of the accounting period converted into sterling using the exchange rates in force at the date of the movement.
- iii. Fair value movements on investment entity subsidiaries are the movement in the carrying value of Group subsidiaries which are classified as investment entities under IFRS 10. The Group makes investments in portfolio assets through these entities which are usually limited partnerships or corporate subsidiaries.
- iv. Portfolio income is that portion of income that is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured. The following specific recognition criteria must be met before the income is recognised:
  - Dividends from equity investments are recognised in the Statement of comprehensive income when the shareholders' rights to receive payment have been established. Income received on the investment in the most junior ranked level of CLO capital is recognised as a dividend. £16 million was received in the year (2014: £10 million).
  - Income from loans and receivables is recognised as it accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset to the asset's carrying value. When the fair value of an investment is assessed to be below the principal value of a loan the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value. Income received on the instruments in the most junior level of CLO capital is recognised as a dividend. £16 million was received in the year (2014: £10 million).
  - Fee income is earned directly from investee companies when an investment is first made and through the life of the investment. Fees that are earned on a financing arrangement are considered to relate to a financial asset measured at fair value through profit or loss and are recognised when that investment is made. Fees that are earned on the basis of providing an ongoing service to the investee company are recognised as that service is provided.
- v. Foreign exchange on investments arises on investments made in currencies that are different from the functional currency of the Group entity. Investments are translated at the exchange rate ruling at the date of the transaction. At each subsequent reporting date investments are translated to sterling at the exchange rate ruling at that date.

### B) Foreign currency translation

For the Company and those subsidiaries whose balance sheets are denominated in sterling which is the Company's functional and presentation currency, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the closing rates of exchange at the balance sheet date. Foreign currency transactions are translated into sterling at the average rates of exchange over the year and exchange differences arising are taken to the income statement.

The balance sheets of subsidiaries and associates denominated in foreign currencies are translated into sterling at the closing rates.

The Statements of comprehensive income for these subsidiaries and associates are translated at the average rates and exchange differences arising are taken to other comprehensive income. Such exchange differences are reclassified to the income statement in the period in which the subsidiary or associate is disposed of.

### C) Treasury assets and liabilities

Short-term treasury assets and short and long-term treasury liabilities are used in order to manage cash flows and minimise the overall costs of borrowing.

Cash and cash equivalents comprise cash at bank and short-term deposits. Financial assets and liabilities are recognised in the balance sheet when the relevant Group entity becomes a party to the contractual provisions of the instrument. De-recognition occurs when rights to cash flows from a financial asset expire, or when a liability is extinguished.

# Notes to the accounts

## 1 SEGMENTAL ANALYSIS

Operating segments are the components of the entity whose results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

The Chief Executive, who is considered to be the chief operating decision maker, manages the Group on two bases. Firstly, as business divisions determined with reference to market focus, geographic focus, investment funding model and the Group's management hierarchy. Secondly, in line with the strategy of the Group, he considers separate Proprietary Capital and Fund Management businesses focused on investment returns and Fund Management profits respectively. A description of the activities, including products and services offered by these divisions and the allocation of resources, is given in the Strategic report.

The segmental information that follows is presented on the Investment basis which is the basis used by the Chief Executive to monitor the performance of the Group. The remaining Notes are prepared on the IFRS basis.

Year to 31 March 2015	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m	Proprietary Capital £m	Fund Management £m	Total £m
Realised profits over value on the disposal of investments	161	1	–	162	162	–	162
Unrealised profits/(losses) on the revaluation of investments	641	68	(25)	684	684	–	684
Portfolio income							
Dividends	9	20	16	45	45	–	45
Income from loans and receivables	56	–	6	62	62	–	62
Fees receivable/(payable)	8	(1)	(1)	6	6	–	6
Foreign exchange on investments	(156)	8	(6)	(154)	(154)	–	(154)
<b>Gross investment return</b>	<b>719</b>	<b>96</b>	<b>(10)</b>	<b>805</b>	<b>805</b>	<b>–</b>	<b>805</b>
Fees receivable from external funds	16	30	34	80	–	80	80
Synthetic fees	–	–	–	–	(45)	45	–
Operating expenses <sup>1</sup>	(66)	(31)	(34)	(131)	(32)	(99)	(131)
Interest receivable				3	3	–	3
Interest payable				(49)	(49)	–	(49)
Movement in the fair value of derivatives				(1)	(1)	–	(1)
Exchange movements				40	40	–	40
<b>Operating profit before carry</b>				<b>747</b>	<b>721</b>	<b>26</b>	<b>747</b>
Carried interest							
Carried interest and performance fees receivable	28	45	7	80			80
Carried interest and performance fees payable	(103)	(35)	(4)	(142)			(142)
Acquisition related earn-out charges	–	–	(8)	(8)			(8)
<b>Operating profit</b>				<b>677</b>			<b>677</b>
Income taxes				(4)			(4)
Other comprehensive income							
Re-measurements of defined benefit plans				(14)			(14)
<b>Total return</b>				<b>659</b>			<b>659</b>
<b>Net divestment/(investment)</b>							
Realisations	831	10	–	841	841		841
Cash investment	(369)	–	(105)	(474)	(474)		(474)
	<b>462</b>	<b>10</b>	<b>(105)</b>	<b>367</b>	<b>367</b>		<b>367</b>
<b>Balance sheet</b>							
Opening portfolio value at 1 April 2014	2,935	487	143	3,565	3,565		3,565
Investment <sup>2</sup>	509	–	105	614	614		614
Value disposed	(670)	(9)	–	(679)	(679)		(679)
Unrealised value movement	641	68	(25)	684	684		684
Other movement <sup>3</sup>	(267)	7	(47)	(307)	(307)		(307)
<b>Closing portfolio value at 31 March 2015</b>	<b>3,148</b>	<b>553</b>	<b>176</b>	<b>3,877</b>	<b>3,877</b>		<b>3,877</b>

1 Includes restructuring costs of nil, nil and £1 million for Private Equity, Infrastructure and Debt Management, respectively, and nil and £1 million for Proprietary Capital and Fund Management, respectively.

2 Includes capitalised interest and other non-cash investment.

3 Other relates to foreign exchange and the provisioning of capitalised interest. In Debt Management, £41 million relates to capital withdrawn from the Palace Street I portfolio.

## Notes to the accounts continued

## 1 SEGMENTAL ANALYSIS CONTINUED

Year to 31 March 2014	Private Equity £m	Infrastructure £m	Debt Management £m	Total £m	Proprietary Capital £m	Fund Management £m	Total £m
Realised profits over value on the disposal of investments	201	1	–	202	202	–	202
Unrealised profits/(losses) on the revaluation of investments	478	(13)	10	475	475	–	475
Portfolio income							
Dividends	13	21	10	44	44	–	44
Income from loans and receivables	46	–	4	50	50	–	50
Fees receivable/(payable)	9	–	(2)	7	4	3	7
Foreign exchange on investments	(100)	(7)	(6)	(113)	(113)	–	(113)
<b>Gross investment return</b>	<b>647</b>	<b>2</b>	<b>16</b>	<b>665</b>	<b>662</b>	<b>3</b>	<b>665</b>
Fees receivable from external funds	17	24	32	73	–	73	73
Synthetic fees	–	–	–	–	(51)	51	–
Operating expenses <sup>1</sup>	(79)	(23)	(34)	(136)	(28)	(108)	(136)
Interest receivable				3	3	–	3
Interest payable				(54)	(54)	–	(54)
Movement in the fair value of derivatives				10	10	–	10
Exchange movements				(3)	(3)	–	(3)
<b>Operating profit before carry</b>				<b>558</b>	<b>539</b>	<b>19</b>	<b>558</b>
Carried interest							
Carried interest and performance fees receivable	(1)	–	4	3			3
Carried interest and performance fees payable	(82)	–	(3)	(85)			(85)
Acquisition related earn-out charges	–	–	(6)	(6)			(6)
<b>Operating profit</b>				<b>470</b>			<b>470</b>
Income taxes				(3)			(3)
Other comprehensive income							
Re-measurements of defined benefit plans				11			11
<b>Total return</b>				<b>478</b>			<b>478</b>
<b>Net divestment/(investment)</b>							
Realisations	669	2	6	677	677		677
Cash investment	(276)	–	(61)	(337)	(337)		(337)
	<b>393</b>	<b>2</b>	<b>(55)</b>	<b>340</b>	<b>340</b>		<b>340</b>
<b>Balance sheet</b>							
Opening portfolio value at 1 April 2013	2,707	507	81	3,295	3,295		3,295
Investment <sup>2</sup>	443	–	61	504	504		504
Value disposed	(468)	(1)	(6)	(475)	(475)		(475)
Unrealised value movement	478	(13)	10	475	475		475
Other movement <sup>3</sup>	(225)	(6)	(3)	(234)	(234)		(234)
<b>Closing portfolio value at 31 March 2014</b>	<b>2,935</b>	<b>487</b>	<b>143</b>	<b>3,565</b>	<b>3,565</b>		<b>3,565</b>

1 Includes restructuring costs of £7 million, £1 million and £1 million for Private Equity, Infrastructure and Debt Management, respectively, and £1 million and £8 million for Proprietary Capital and Fund Management, respectively.

2 Includes capitalised interest and other non-cash investment.

3 Other relates to foreign exchange and the provisioning of capitalised interest.



## 1 SEGMENTAL ANALYSIS CONTINUED

Year to 31 March 2015	UK £m	Continental Europe £m	The Americas £m	Asia £m	Rest of World £m	Total £m
<b>Gross investment return</b>						
Realised profits over value on the disposal of investments	2	121	29	10	–	162
Unrealised profits/(losses) on the revaluation of investments	106	531	36	12	(1)	684
Portfolio income	56	42	13	2	–	113
Foreign exchange on investments	(2)	(218)	40	25	1	(154)
	<b>162</b>	<b>476</b>	<b>118</b>	<b>49</b>	<b>–</b>	<b>805</b>
<b>Net divestment/(investment)</b>						
Realisations	70	532	161	77	1	841
Cash Investment	(109)	(186)	(179)	–	–	(474)
	<b>(39)</b>	<b>346</b>	<b>(18)</b>	<b>77</b>	<b>1</b>	<b>367</b>
<b>Balance sheet</b>						
<b>Value of investment portfolio at the end of the year</b>	<b>1,148</b>	<b>1,947</b>	<b>483</b>	<b>297</b>	<b>2</b>	<b>3,877</b>

Year to 31 March 2014	UK £m	Continental Europe £m	The Americas £m	Asia £m	Rest of World £m	Total £m
<b>Gross investment return</b>						
Realised profits over value on the disposal of investments	77	89	28	7	1	202
Unrealised profits/(losses) on the revaluation of investments	33	357	124	(39)	–	475
Portfolio income	47	36	16	2	–	101
Foreign exchange on investments	(1)	(38)	(36)	(38)	–	(113)
	<b>156</b>	<b>444</b>	<b>132</b>	<b>(68)</b>	<b>1</b>	<b>665</b>
<b>Net divestment/(investment)</b>						
Realisations	218	343	70	43	3	677
Cash Investment	(41)	(238)	(58)	–	–	(337)
	<b>177</b>	<b>105</b>	<b>12</b>	<b>43</b>	<b>3</b>	<b>340</b>
<b>Balance sheet</b>						
<b>Value of investment portfolio at the end of the year</b>	<b>1,058</b>	<b>1,817</b>	<b>361</b>	<b>325</b>	<b>4</b>	<b>3,565</b>

**2 REALISED PROFITS OVER VALUE ON THE DISPOSAL OF INVESTMENTS**

	2015 Unquoted investments £m	2015 Quoted investments £m	2015 Total £m
Realisations	155	115	270
Valuation of disposed investments	(136)	(80)	(216)
	<b>19</b>	<b>35</b>	<b>54</b>
Of which:			
– profit recognised on realisations	21	35	56
– losses recognised on realisations	(2)	–	(2)
	<b>19</b>	<b>35</b>	<b>54</b>

	2014 Unquoted investments (restated) £m	2014 Quoted investments (restated) £m	2014 Total (restated) £m
Realisations	442	12	454
Valuation of disposed investments	(298)	(10)	(308)
	<b>144</b>	<b>2</b>	<b>146</b>
Of which:			
– profit recognised on realisations	148	2	150
– losses recognised on realisations	(4)	–	(4)
	<b>144</b>	<b>2</b>	<b>146</b>

**3 UNREALISED PROFITS/(LOSSES) ON THE REVALUATION OF INVESTMENTS**

	2015 Unquoted investments £m	2015 Quoted investments £m	2015 Total £m
Movement in the fair value of investments	117	119	236
Of which:			
– unrealised gains	193	119	312
– unrealised losses	(76)	–	(76)
	<b>117</b>	<b>119</b>	<b>236</b>

	2014 Unquoted investments (restated) £m	2014 Quoted Investments (restated) £m	2014 Total (restated) £m
Movement in the fair value of investments	67	14	81
Of which:			
– unrealised gains	126	14	140
– unrealised losses	(59)	–	(59)
	<b>67</b>	<b>14</b>	<b>81</b>

## 4 OPERATING EXPENSES

Operating expenses of £122 million (2014: £136 million) recognised in the IFRS Statement of comprehensive income include the following amounts:

	2015 £m	2014 (restated) £m
Depreciation of property, plant and equipment	2	2
Amortisation of fund management contracts	6	6
Audit fees	2	2
Staff costs (Note 5)	85	77
Restructuring and redundancy costs	1	9

Expenses incurred in the entities accounted for as investment entity subsidiaries were £9 million (2014: nil). Total operating expenses were £131 million (2014: £136 million) under the Investment basis.

## 5 STAFF COSTS

The table below is prepared in accordance with Companies Act requirements, which is consistent with both the IFRS and the Investment basis.

	2015 £m	2014 (restated) £m
Wages and salaries	56	57
Social security costs <sup>1</sup>	11	10
Share-based payment costs (Note 27)	15	6
Pension costs	3	4
	<b>85</b>	<b>77</b>

1 Excludes nil social security cost included in restructuring and redundancy costs (2014: £1 million).

Under both IFRS and the Investment basis, the average number of employees during the year was 271 (2014 restated: 277).

Wages and salaries shown above include salaries paid in the year, bonuses and portfolio incentive schemes relating to the year. These costs are included in operating expenses. The table below analyses these costs between fixed and variable elements.

	2015 £m	2014 (restated) £m
Fixed staff costs	39	46
Variable staff costs	46	31
	<b>85</b>	<b>77</b>

## 6 INFORMATION REGARDING THE GROUP'S AUDITORS

During the year the Group obtained the following services from its Auditors, Ernst & Young LLP. The table below is prepared in accordance with Companies Act requirements, which is consistent with both the IFRS and the Investment basis.

	2015 £m	2014 £m
<b>Audit services</b>		
Statutory audit – Company	1.2	1.3
– UK subsidiaries	0.6	0.5
– Overseas subsidiaries	0.2	0.2
	<b>2.0</b>	<b>2.0</b>
<b>Non-audit services</b>		
Other assurance services	0.5	0.2
Investment due diligence	0.2	0.2
Tax services (compliance and advisory services)	0.3	0.1
	<b>3.0</b>	<b>2.5</b>

### NON-AUDIT SERVICES

In addition to the above, Ernst & Young LLP has received fees from investee companies. It is estimated that Ernst & Young LLP received less than 20% (2014: less than 20%) of the total investment-related fees paid to the four largest accounting firms.

## 7 INCOME TAXES

### ACCOUNTING POLICY:

Income taxes represent the sum of the tax currently payable, withholding taxes suffered and deferred tax. Tax is charged or credited in the Statement of comprehensive income, except where it relates to items charged or credited directly to equity, in which case the tax is also dealt with in equity.

The tax currently payable is based on the taxable profit for the year. This may differ from the profit included in the Statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

To enable the tax charge to be based on the profit for the year, deferred tax is provided in full on temporary timing differences, at the rates of tax expected to apply when these differences crystallise. Deferred tax assets are recognised only to the extent that it is probable that sufficient taxable profits will be available against which temporary differences can be set off. All deferred tax liabilities are offset against deferred tax assets in accordance with the provisions of IAS 12 "Income taxes".

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

	2015 £m	2014 (restated) £m
<b>Current taxes</b>		
Current year	(3)	(6)
<b>Deferred taxes</b>		
Deferred income taxes	1	3
<b>Total income taxes in the Statement of comprehensive income</b>	<b>(2)</b>	<b>(3)</b>

## 7 INCOME TAXES CONTINUED

### RECONCILIATION OF INCOME TAXES IN THE STATEMENT OF COMPREHENSIVE INCOME

The tax charge for the year is different to the standard rate of corporation tax in the UK, currently 21% (2014: 23%), and the differences are explained below:

	2015 £m	2014 (restated) £m
Profit before tax	702	520
Profit before tax multiplied by rate of corporation tax in the UK of 21% (2014: 23%)	(147)	(120)
Effects of:		
Utilisation of previously unrecognised deferred tax	3	7
Non-taxable dividend income	6	6
Permanent differences	(6)	–
Foreign tax	(2)	(4)
Capital profits	145	137
Excess tax losses arising in the period	(1)	(29)
<b>Total income taxes in the Statement of comprehensive income</b>	<b>(2)</b>	<b>(3)</b>

The Group's realised profits, fair value adjustments and impairment losses are primarily included in the Company, the affairs of which are directed so as to allow it to be approved as an investment trust. An investment trust is exempt from tax on capital gains, therefore the Group's capital return is substantially non-taxable.

Including £2 million of tax charges incurred in fair valued entities, the total tax charge for the Group was £4 million under the Investment basis presentation.

### DEFERRED INCOME TAXES

	2015 £m	2014 (restated) £m
<b>Opening deferred income tax asset</b>		
Tax losses	12	9
Income in accounts taxable in the future	(12)	(11)
Other	1	1
	1	(1)
<b>Recognised through Statement of comprehensive income</b>		
Tax losses utilised	(5)	3
Income in accounts taxable in the future	5	–
Other	1	–
	1	3
<b>Recognised on acquisition</b>		
Income in accounts taxable in the future	–	(1)
	–	(1)
<b>Closing deferred income tax asset</b>		
Tax losses	7	12
Income in accounts taxable in the future	(7)	(12)
Other	2	1
	<b>2</b>	<b>1</b>

At 31 March 2015, the Group had carried forward tax losses of £1,409 million (2014: £1,360 million), capital losses of £98 million (2014: £78 million) and other temporary differences of £12 million (2014: £12 million). It is uncertain that the Group will generate sufficient taxable profits in the foreseeable future to utilise these amounts and therefore no deferred tax asset has been recognised in respect of these losses. Deferred income taxes are calculated using an expected rate of corporation tax in the UK of 20% (2014: 20%).

## Notes to the accounts continued

**8 PER SHARE INFORMATION**

The calculation of basic net assets per share is based on the profit attributable to shareholders and the number of basic average shares. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effect of all dilutive share options and awards.

As at 31 March	2015	2014
<b>Earnings per share (pence)</b>		
Basic	73.9	54.8
Diluted	72.9	54.5
<b>Earnings (£m)</b>		
Profit for the year attributable to equity holders of the Company	700	517

As at 31 March	2015	2014
<b>Weighted average number of shares in issue</b>		
Ordinary shares	972,141,887	971,574,471
Own shares	(24,825,193)	(28,285,335)
	947,316,694	943,289,136
Effect of dilutive potential ordinary shares		
Share options and awards	12,293,543	5,627,447
<b>Diluted shares</b>	<b>959,610,237</b>	<b>948,916,583</b>

As at 31 March	2015	2014
<b>Net assets per share (£)</b>		
Basic	4.01	3.50
Diluted	3.96	3.48
<b>Net assets (£m)</b>		
Net assets attributable to equity holders of the Company	3,806	3,308

Basic NAV per share is calculated on 948,610,924 shares in issue at 31 March 2015 (31 March 2014: 945,028,804). Diluted NAV per share is calculated on diluted shares of 961,432,940 at 31 March 2015 (31 March 2014: 951,531,950).

**9 DIVIDENDS**

	2015 pence per share	2015 £m	2014 pence per share	2014 £m
Declared and paid during the year				
Ordinary shares				
Final dividend	13.3	126	5.4	51
Interim dividend	6.0	57	6.7	63
	<b>19.3</b>	<b>183</b>	<b>12.1</b>	<b>114</b>
<b>Proposed final dividend</b>	<b>14.0</b>	<b>133</b>	<b>13.3</b>	<b>126</b>



## 10 INVESTMENT PORTFOLIO

### ACCOUNTING POLICY:

Investments are recognised and de-recognised on the date where the purchase or sale of an investment is under a contract whose terms require the delivery or settlement of the investment and the risks and rewards attached to it. The Group manages its investments with a view to profiting from the receipt of investment income and capital appreciation from changes in the fair value of equity investments.

Quoted investments are designated at fair value through profit and loss and subsequently carried in the balance sheet at fair value. Fair value is measured using the closing bid price at the reporting date, where the investment is quoted on an active stock market.

Unquoted investments, including both equity and loans are designated at fair value through profit and loss and are subsequently carried in the balance sheet at fair value. Fair value is measured using the International Private Equity and Venture Capital valuation guidelines (IPEV), details of which are available in "Portfolio valuation – an explanation" on pages 136 and 137.

All investments are initially recognised at the fair value of the consideration given and held at this value until it is appropriate to measure fair value on a different basis, in accordance with 3i Group's valuation policies.

Interest bearing loans accrue interest which is either settled in cash or capitalised on a regular basis and included as part of the principal loan balance. The capitalisation of accrued interest is treated as part of investment additions during the year. If the fair value of an investment is assessed to be below the principal value of the loan the Group recognises a fair value reduction against any interest income accrued from the date of the assessment going forward. "Capitalisation at nil value" is the term used to describe the capitalisation of accrued interest which has been fully provided for. These transactions are disclosed as additions to portfolio cost with an equal reduction in portfolio value.

As a result of IFRS 10, and the exception from consolidation, the proportion of the investment portfolio held by the Group's unconsolidated subsidiaries is now presented as part of the fair value of investment entity subsidiaries, along with the fair value of their other assets and liabilities. A reconciliation of the fair value of Investments in investment entities is included in Note 11.

	Group 2015 £m	Group 2014 (restated) £m	Company 2015 £m	Company 2014 (restated) £m
Opening book value	1,582	1,687	1,541	1,686
Additions	203	225	109	191
– of which loan notes with nil value	(48)	(60)	(48)	(60)
Disposals, repayments and write-offs	(216)	(308)	(217)	(306)
Fair value movement	236	81	249	83
Other movements and net cash returned	(86)	(43)	(72)	(53)
<b>Closing book value</b>	<b>1,671</b>	<b>1,582</b>	<b>1,562</b>	<b>1,541</b>
Quoted investments	399	258	399	258
Unquoted investments	1,272	1,324	1,163	1,283
<b>Closing book value</b>	<b>1,671</b>	<b>1,582</b>	<b>1,562</b>	<b>1,541</b>

The holding period of 3i's investment portfolio is on average greater than one year. For this reason the portfolio is classified as non-current. It is not possible to identify with certainty investments that will be sold within one year.

Additions include £69 million (2014: £98 million) in interest received by way of loan notes, of which £48 million (2014: £60 million) has been valued to nil. Included within the Statement of comprehensive income is £38 million (2014: £29 million) of interest income, which reflects the net additions after write downs noted above, £14 million (2014: £6 million) of cash income and the capitalisation of prior year accrued income and non-capitalised accrued income is £3 million (2014: £(15) million).

Other movements include foreign exchange and conversions from one instrument into another, including £18 million which relates to net cash returned (2014: £21 million net cash invested) from Debt Management warehouses.

## 11 INVESTMENTS IN INVESTMENT ENTITIES

### ACCOUNTING POLICY:

Investments in investment entity subsidiaries are accounted for as financial instruments at fair value through profit or loss.

These entities are typically Limited Partnerships and other intermediate investment holding structures which hold the Group's interests in investments in portfolio companies (Investment Entity Holding Companies) and were consolidated prior to the adoption of IFRS 10. The fair value can increase or reduce from either cash flows to/from the investment entities or valuation movements in line with the Group's valuation policy. The fair value of these entities is their net asset values subject to any adjustments where necessary.

	Group 2015 £m	Group 2014 (restated) £m
Non-current		
Opening book value	1,909	1,594
Net cash flow from investment entity	(272)	(62)
Fair value movement on investment entity subsidiary	530	433
Transfer of assets from investment entity subsidiaries to the Company	(88)	(56)
<b>Closing book value</b>	<b>2,079</b>	<b>1,909</b>

All investment entities are classified as Level 3 in the fair value hierarchy, see Note 12 for details.

A 5% movement in the closing book value of investments in investment entities would have an impact of £104 million (2014: £95 million).

### RESTRICTIONS

3i Group plc, the ultimate parent company, receives dividend income from its subsidiaries. There are no significant restrictions on the ability to transfer funds from these subsidiaries to the Group.

### SUPPORT

3i Group plc provides ongoing support to its investment entity subsidiaries for the purchase of portfolio investments. During the year, the Group provided support to its unconsolidated subsidiaries, with a net cash flow as noted in the table above. The Group's current commitments to its subsidiaries are disclosed in Note 24.

## 12 FAIR VALUES OF ASSETS AND LIABILITIES

### ACCOUNTING POLICY:

Financial instruments, other than those held at amortised cost, are held at fair value and are designated irrevocably at inception. In particular, 3i designates groups of financial instruments as being at fair value when they are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and where information about the groups of financial instruments is reported to management on that basis.

### (A) CLASSIFICATION

The following tables analyse the Group's assets and liabilities in accordance with the categories of financial instruments in IAS 39:

	Group Designated at fair value through profit and loss £m	Group Other financial instruments at amortised cost £m	Group Total £m	Company Designated at fair value through profit and loss £m	Company Other financial instruments at amortised cost £m	Company Total £m
At 31 March 2015						
<b>Assets</b>						
Quoted investments	399	–	399	399	–	399
Unquoted investments	1,272	–	1,272	1,163	–	1,163
Investments in investment entities	2,079	–	2,079	–	–	–
Other financial assets	88	54	142	33	341	374
<b>Total</b>	<b>3,838</b>	<b>54</b>	<b>3,892</b>	<b>1,595</b>	<b>341</b>	<b>1,936</b>
<b>Liabilities</b>						
Loans and borrowings	–	815	815	–	815	815
Other financial liabilities	85	179	264	2	348	350
<b>Total</b>	<b>85</b>	<b>994</b>	<b>1,079</b>	<b>2</b>	<b>1,163</b>	<b>1,165</b>

	Group Designated at fair value through profit and loss £m	Group Other financial instruments at amortised cost £m	Group Total £m	Company Designated at fair value through profit and loss £m	Company Other financial instruments at amortised cost £m	Company Total £m
At 31 March 2014						
<b>Assets</b>						
Quoted investments	258	–	258	258	–	258
Unquoted investments	1,324	–	1,324	1,283	–	1,283
Investments in investment entities	1,909	–	1,909	–	–	–
Derivative financial instruments	2	–	2	2	–	2
Other financial assets	17	76	93	8	303	311
<b>Total</b>	<b>3,510</b>	<b>76</b>	<b>3,586</b>	<b>1,551</b>	<b>303</b>	<b>1,854</b>
<b>Liabilities</b>						
Loans and borrowings	–	849	849	–	849	849
Derivative financial instruments	4	–	4	4	–	4
Other financial liabilities	36	200	236	2	324	326
<b>Total</b>	<b>40</b>	<b>1,049</b>	<b>1,089</b>	<b>6</b>	<b>1,173</b>	<b>1,179</b>

## 12 FAIR VALUES OF ASSETS AND LIABILITIES CONTINUED

3i enters into warehouse arrangements to support the creation of debt portfolios ahead of future CLO launches and has designated these financial instruments at fair value. At 31 March 2015, 3i has invested £43 million (2014: £17 million) to these warehouses and the balance is included within the Group's unquoted investments. Of this balance, £15 million has been invested to secured debt portfolios and £28 million is held by the warehouse provider either awaiting settlement or held as cash pending a return to 3i. For the Company, £28 million is included within the unquoted investments.

Details of the commitments and contingent liabilities in relation to these warehouses can be found in Notes 24 and 25.

### (B) VALUATION

The fair values of the Group's financial assets and liabilities are not materially different from their carrying values with the exception of loans and borrowings. The fair value of the loans and borrowings is £997 million (2014: £942 million), determined with reference to their published market prices. The carrying value of the loans and borrowings is £815 million (2014: £849 million).

#### Valuation hierarchy

The Group classifies financial instruments measured at fair value in the investment portfolio according to the following hierarchy:

Level	Fair value input description	Financial instruments
Level 1	Quoted prices (unadjusted) from active markets	Quoted equity instruments
Level 2	Inputs other than quoted prices included in Level 1 that are observable either directly (ie as prices) or indirectly (ie derived from prices)	
Level 3	Inputs that are not based on observable market data	Unquoted equity instruments and loan instruments

Unquoted equity instruments and debt instruments are measured in accordance with the International Private Equity and Venture Capital valuation guidelines with reference to the most appropriate information available at the time of measurement. Further information regarding the valuation of unquoted equity instruments and debt instruments can be found in the section "Portfolio valuation – an explanation" on page 136.

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy at 31 March 2015:

	Group 2015 Level 1 £m	Group 2015 Level 2 £m	Group 2015 Level 3 £m	Group 2015 Total £m	Group 2014 Level 1 (restated) £m	Group 2014 Level 2 (restated) £m	Group 2014 Level 3 (restated) £m	Group 2014 Total (restated) £m
<b>Assets</b>								
Quoted investments	399	–	–	399	258	–	–	258
Unquoted investments	–	–	1,272	1,272	–	–	1,324	1,324
Derivative financial instruments	–	–	–	–	–	2	–	2
<b>Total</b>	<b>399</b>	<b>–</b>	<b>1,272</b>	<b>1,671</b>	<b>258</b>	<b>2</b>	<b>1,324</b>	<b>1,584</b>
<b>Liabilities</b>								
Derivative financial instruments	–	–	–	–	–	4	–	4
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4</b>	<b>–</b>	<b>4</b>

At the Company level, the disclosures remain the same, with the exception of unquoted investments. Unquoted investments in the Company of £1,163 million (2014: £1,283 million) are valued at Level 3 in the fair value hierarchy.

This disclosure only refers to the directly held investment portfolio. The fair value hierarchy also applies to Investments in investment entities, see Note 11 for details.

Investments in investment entities are fair valued at the entity's net asset value with the significant part being attributable to the underlying portfolio. The underlying portfolio is valued under the same methodology as directly held investments with any other assets or liabilities within investment entities fair valued in accordance with the Group's accounting policies.

## 12 FAIR VALUES OF ASSETS AND LIABILITIES CONTINUED

Movements in the directly held investment portfolio categorised as Level 3 during the year:

	Group 2015 £m	Group 2014 (restated) £m	Company 2015 £m	Company 2014 (restated) £m
Opening book value	1,324	1,444	1,283	1,443
Additions	201	225	107	191
– of which loan notes with nil value	(48)	(60)	(48)	(60)
Disposals, repayments and write-offs	(136)	(298)	(136)	(297)
Fair value movement	117	67	130	69
Transfer of investment Level 3 to Level 1	(112)	(12)	(112)	(12)
Other movements	(74)	(42)	(61)	(51)
<b>Closing book value</b>	<b>1,272</b>	<b>1,324</b>	<b>1,163</b>	<b>1,283</b>

Unquoted investments valued using Level 3 inputs also had the following impact on the Statement of comprehensive income; realised profits over value on disposal of investment of £19 million (2014: £144 million), dividend income of £23 million (2014: £12 million) and foreign exchange losses of £52 million (2014: £48 million losses). The transfer of investment from Level 3 to Level 1 reflects the IPOs of Eltel and Refresco in the year.

Level 3 inputs are sensitive to assumptions made when ascertaining fair value as described in the Portfolio valuation – an explanation section. On an IFRS basis, of assets held at 31 March 2015, classified as Level 3, 44% (2014: 43%) were valued using a multiple of earnings and the remaining 56% (2014: 57%) were valued using alternative valuation methodologies.

**Valuation multiple** – The valuation multiple is the main assumption applied to a multiple of earnings based valuation. The multiple is derived from comparable listed companies or relevant market transaction multiples. Companies in the same industry and geography and, where possible, with a similar business model and profile are selected and then adjusted for factors including liquidity risk, growth potential and relative performance. The value weighted average multiple used when valuing the portfolio was 9.68x (2014: 9.08x).

If the multiple used to value each unquoted investment valued on an earnings multiple basis as at 31 March 2015 decreased by 5%, the investment portfolio would decrease by £35 million (2014: £57 million) or 2% (2014: 4%). If the same sensitivity was applied to the underlying portfolio held by investment entities, this would have a negative impact of £121 million (2014: £101 million) or 5% (2014: 5%).

If the multiple increased by 5% then the investment portfolio would increase by £33 million (2014: £57 million) or 2% (2014: 4%). If the same sensitivity was applied to the underlying portfolio held by investment entities, this would have a positive impact of £122 million (2014: £103 million) or 6% (2014: 5%).

**Alternative valuation methodologies** – There are a number of alternative investment valuation methodologies used by the Group, for reasons specific to individual assets. The details of such valuation methodologies, and the inputs that are used, are given in the Portfolio valuation – an explanation section. Each methodology is used for a proportion of assets, by value and at year end the following techniques were used: 21% DCF, 7% Imminent sale, 10% Industry metric, 13% broker quotes and 5% other. If the value of all of the investments under this methodology moved by 5%, this would have an impact on the investment portfolio of £35 million (2014: £29 million) or 2% (2014: 2%). If the same sensitivity was applied to the underlying portfolio held by investment entities, this would have an impact of £6 million (2014: £7 million) or 0.3% (2014: 0.4%).

## 13 CARRIED INTEREST AND PERFORMANCE FEES

### ACCOUNTING POLICY:

#### Carried interest and performance fees receivable

The Group earns a share of profits ("carried interest and performance fees receivable") from funds which it manages on behalf of third parties. These profits are earned when the funds meet certain performance conditions.

Carried interest and performance fees receivable include amounts receivable from Private Equity, Infrastructure and Debt Management funds. Each scheme is separately reviewed at the balance sheet date, and an accrual for carried interest receivable is made once the performance conditions would be achieved if the remaining assets in that fund were realised at fair value. Fair value is determined using the Group's valuation methodology and is measured at the balance sheet date. An accrual is made equal to the Group's share of profits in excess of the performance conditions, taking into account the cash already returned to fund investors and the fair value of assets remaining in the fund.

The performance fee receivable from 3iN is based on 3iN's most recently published NAV subject to a performance hurdle and a high water mark.

#### Carried interest and performance fees payable

The Group offers investment executives the opportunity to participate in the returns from successful investments. "Carried interest and performance fees payable" is the term used for amounts payable to executives on investment-related transactions.

A variety of asset pooling arrangements are in place so that executives may have an interest in one or more carried interest schemes. Carried interest payable is accrued if its performance conditions, measured at the balance sheet date, would be achieved if the remaining assets in that scheme were realised at fair value. An accrual is made equal to the executive's share of profits in excess of the performance conditions in place in the carried interest scheme, discounted to reflect the likely actual cash payment date, which may be materially later than the time of the accrual.

The Infrastructure performance fee is accrued when we become contractually liable to make payments to the team.

Under IFRS 10, where carry payable reduces the fair value of an investment entity subsidiary, that movement is recorded through "Fair value movements on investment entity subsidiaries". At 31 March 2015, an additional £142 million of carry payable was recognised in the Statement of financial position of these investment entity subsidiaries (2014: £81 million).

	Group 2015 £m	Group 2014 (restated) £m
Opening carried interest and performance fees receivable	17	20
Carried interest and performance fees receivable recognised in the Statement of comprehensive income during the year	80	3
Cash received in the year	(6)	(5)
Other movements	(3)	(1)
<b>Closing carried interest and performance fees receivable</b>	<b>88</b>	<b>17</b>
<b>Of which: receivable in greater than 1 year</b>	<b>43</b>	<b>17</b>

	Group 2015 £m	Group 2014 (restated) £m
Opening carried interest and performance fees payable	36	39
Carried interest and performance fees payable recognised in the Statement of comprehensive income during the year <sup>1</sup>	68	11
Cash paid in the year	(14)	(15)
Other movements	(5)	1
<b>Closing carried interest and performance fees payable</b>	<b>85</b>	<b>36</b>
<b>Of which: payable in greater than 1 year</b>	<b>72</b>	<b>30</b>

<sup>1</sup> The carry payable charge in the table above does not include £4 million (2014: £6 million) associated with the share-based payment charge arising from related carry schemes. The total carried interest and performance fee payable recognised in the statement of comprehensive income is £72 million (2014: £17 million). See Note 27 Share based payments for further details.



## 14 INTANGIBLE ASSETS

### ACCOUNTING POLICY:

Fund management contracts, such as those acquired by the Group in connection with the acquisition of a subsidiary, are stated at their fair value at the date of acquisition less accumulated amortisation and any impairment losses.

Amortisation is charged to the Statement of comprehensive income, included in operating expenses, on a straight-line basis over the estimated useful life of the fund management contract, typically five to 10 years.

Goodwill is recognised on the acquisition of subsidiaries when the cost of acquisition exceeds the net assets acquired. Goodwill is carried at cost less any accumulated impairment, and is assessed annually for impairment.

	Group 2015 £m	Group 2014 (restated) £m
Fund management contracts		
Opening cost	33	33
Closing cost	33	33
Opening accumulated amortisation	17	11
Charge for the year	6	6
Closing accumulated amortisation	23	17
<b>Net book amount</b>	<b>10</b>	<b>16</b>
Goodwill		
Opening value	9	9
<b>Closing value</b>	<b>9</b>	<b>9</b>
<b>Total</b>	<b>19</b>	<b>25</b>

## 15 OTHER CURRENT ASSETS

### ACCOUNTING POLICY:

Assets, other than those specifically accounted for under a separate policy, are stated at their cost less impairment losses. They are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated based on expected discounted future cash flows. Any change in the level of impairment is recognised directly in the Statement of comprehensive income.

	Group 2015 £m	Group 2014 (restated) £m	Company 2015 £m	Company 2014 £m
Prepayments	4	5	–	–
Other debtors	50	71	43	11
Amounts due from subsidiaries	–	–	298	292
	<b>54</b>	<b>76</b>	<b>341</b>	<b>303</b>

## 16 LOANS AND BORROWINGS

### ACCOUNTING POLICY:

All loans and borrowings are initially recognised at the fair value of the consideration received. After initial recognition, these are subsequently measured at amortised cost using the effective interest method, which is the rate that exactly discounts the estimated future cash flows through the expected life of the liabilities. Financial liabilities are derecognised when they are extinguished.

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Loans and borrowings are repayable as follows:				
Within one year	–	–	–	–
In the second year	240	–	240	–
In the third year	–	274	–	274
In the fourth year	–	–	–	–
In the fifth year	–	–	–	–
After five years	575	575	575	575
	<b>815</b>	<b>849</b>	<b>815</b>	<b>849</b>

Principal borrowings include:

	Rate	Maturity	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
<b>Issued under the £2,000 million note issuance programme</b>						
<b>Fixed rate</b>						
£200 million notes (public issue)	6.875%	2023	200	200	200	200
£400 million notes (public issue)	5.750%	2032	375	375	375	375
€350 million notes (public issue)	5.625%	2017	240	274	240	274
			<b>815</b>	<b>849</b>	<b>815</b>	<b>849</b>
<b>Committed multi-currency facilities</b>						
£350 million	LIBOR+0.60%	2019	–	–	–	–
£50 million	LIBOR+1.50%	2016	–	–	–	–
£450 million	LIBOR+1.00%	2016	–	–	–	–
			–	–	–	–
<b>Total loans and borrowings</b>			<b>815</b>	<b>849</b>	<b>815</b>	<b>849</b>

During the period, the £450 million syndicated multi-currency facility was replaced with a £350 million syndicated multi-currency facility with a maturity date of September 2019. The Company has the option to request one year extensions at the first and second year anniversary of the facility, which may be granted at the discretion of each lender individually. The new £350 million facility has no financial covenants.

The £50 million multi-currency facility was cancelled during the period.

All of the Group's borrowings are repayable in one instalment on the respective maturity dates. None of the Group's interest-bearing loans and borrowings are secured on the assets of the Group.

The fair value of the loans and borrowings is £997 million (2014: £942 million), determined with reference to their published market prices. The loans and borrowings are included in Level 1 of the fair value hierarchy as detailed in Note 12.

Under AIFMD, the Group is required to calculate leverage in accordance with a set formula and disclose this to investors. In line with AIFMD, leverage is 117% (2014: 127%) under the gross method and 120% (2014: 133%) under the commitment method. More detail on the Group's capital structure is included in Note 21.

## 17 PROVISIONS

### ACCOUNTING POLICY:

Provisions are recognised when the Group has a present obligation of uncertain timing or amount as a result of past events, and it is probable that the Group will be required to settle that obligation and a reliable estimate of that obligation can be made. The provisions are measured at the Directors' best estimate of the amount to settle the obligation at the balance sheet date, and are discounted to present value if the effect is material. Changes in provisions are recognised in the Statement of comprehensive income for the period.

	Group 2015 Property £m	Group 2015 Redundancy £m	Group 2015 Restructuring £m	Group 2015 Total £m
Opening balance	6	4	3	13
Charge for the year	–	–	1	1
Utilised in the year	(2)	(3)	(1)	(6)
<b>Closing balance</b>	<b>4</b>	<b>1</b>	<b>3</b>	<b>8</b>

	Group 2014 Property (restated) £m	Group 2014 Redundancy (restated) £m	Group 2014 Restructuring (restated) £m	Group 2014 Total (restated) £m
Opening balance	7	4	2	13
Charge for the year	1	7	1	9
Utilised in the year	(2)	(7)	–	(9)
<b>Closing balance</b>	<b>6</b>	<b>4</b>	<b>3</b>	<b>13</b>

The provision for redundancy relates to staff reductions announced prior to 31 March 2015. Most of the provision is expected to be utilised in the next year.

The Group has a number of leasehold properties whose rent and unavoidable costs exceed the economic benefits expected to be received. These costs arise over the period of the lease, and have been provided for to the extent they are not covered by income from subleases. The leases covered by the provision have a remaining term of up to 10 years.

## 18 TRADE AND OTHER PAYABLES

### ACCOUNTING POLICY:

Liabilities, other than those specifically accounted for under a separate policy, are stated based on the amounts which are considered to be payable in respect of goods or services received up to the balance sheet date.

	Group 2015 £m	Group 2014 (restated) £m	Company 2015 £m	Company 2014 £m
Amounts due to subsidiaries	–	–	307	276
Trade and other payables	152	166	20	16
	<b>152</b>	<b>166</b>	<b>327</b>	<b>292</b>

## Notes to the accounts continued

**19 ISSUED CAPITAL****ACCOUNTING POLICY:**

Ordinary shares issued by the Group are recognised at the proceeds or fair value received with the excess of the amount received over nominal value being credited to the share premium account. Direct issue costs net of tax are deducted from equity.

Issued and fully paid	2015 Number	2015 £m	2014 Number	2014 £m
<b>Ordinary shares of 73 1/2p</b>				
Opening balance	971,803,122	718	971,405,127	718
Issued on exercise of share options and under employee share plans	650,697	1	397,995	–
<b>Closing balance</b>	<b>972,453,819</b>	<b>719</b>	<b>971,803,122</b>	<b>718</b>

During the year to 31 March 2015 the Company issued 487,574 ordinary shares for total cash consideration of £1,888,531.63 on the exercise of executive share options at various prices from 352.5 pence to 431.5 pence per share (being the market prices at the dates of grant in 2004 and 2005 of the options, adjusted to reflect returns of capital and additional dividends). The Company issued 163,123 ordinary shares to the Trustee of the 3i Group Share Incentive Plan for a total cash consideration of £676,963.57 at various prices from 381.7 pence to 492.3 pence per share (being the market prices on the issue dates which were the last trading day of each month in the year). These shares were ordinary shares with no additional rights attached to them and had a total nominal value of £480,628.47.

**20 OWN SHARES****ACCOUNTING POLICY:**

Own shares are recorded by the Group when ordinary shares are acquired by the Company or by The 3i Group Employee Benefit Trust. Own shares are deducted from shareholders' equity. A transfer is made to retained earnings at their weighted average cost in line with the vesting of own shares held for the purposes of share-based payments. The number of own shares held by the Trust and the schemes are described in Note 27 Share based payments.

	2015 £m	2014 £m
Opening cost	89	104
Awards vested	(10)	(15)
<b>Closing cost</b>	<b>79</b>	<b>89</b>

**21 CAPITAL STRUCTURE**

The capital structure of the Group consists of net debt, including cash held on deposit, long-term borrowings and shareholders' equity. The type and maturity of the Group's borrowings are analysed further in Note 16. Capital is managed with the objective of maximising long-term return to shareholders, whilst maintaining a capital base to allow the Group to operate effectively in the marketplace and sustain the future development of the business.

	Group 2015 £m	Group 2014 (restated) £m	Company 2015 £m	Company 2014 £m
Cash, deposits and derivative financial assets <sup>1</sup>	861	676	735	607
Borrowings and derivative financial liabilities <sup>2</sup>	(815)	(859)	(815)	(859)
Net cash/(debt) <sup>3</sup>	46	(183)	(80)	(252)
Total equity	3,806	3,308	3,067	3,015
Gearing (net debt/total equity)	nil	6%	3%	8%

1 Group and Company include derivative financial assets of nil (2014: £2 million) which net off borrowings in order to calculate gross debt.

2 Group and Company include derivative financial liabilities of nil (2014: £4 million) and B shares of nil (2014: £6 million).

3 The above numbers have been prepared under IFRS and differ from the Investment basis as detailed in the Strategic report.

## 21 CAPITAL STRUCTURE CONTINUED

### CAPITAL CONSTRAINTS

The Group is generally free to transfer capital from subsidiary undertakings to the parent company subject to maintaining each subsidiary with sufficient reserves to meet local statutory/regulatory obligations. No significant constraints have been identified and the Group has been able to distribute profits in a tax-efficient manner.

The Group's regulated capital requirement is reviewed regularly by the Board of 3i Investments plc, an investment firm that is regulated by the FCA. The last submission to the FCA demonstrated a significant consolidated capital surplus in excess of the FCA's prudential rules. The Group's capital requirement is updated regularly following approval of the Group's Internal Capital Adequacy Assessment Process (ICAAP) report by the Board of 3i Investments plc. The Group complies with the Individual Capital Guidance as agreed with the FCA and operates with a significant regulatory capital surplus. The Group's Pillar 3 disclosure document can be found on [www.3i.com](http://www.3i.com).

## 22 INTERESTS IN GROUP AND FAIR VALUE ENTITIES

### ACCOUNTING POLICY:

The Company has controlling equity interests in, and makes loans to, both consolidated and fair valued Group entities. In the Company's books these subsidiaries are all held at amortised cost less impairment.

	Company 2015 Equity investments £m	Company 2015 Loans and receivables £m	Company 2015 Total £m
Opening book value	334	1,401	1,735
Additions	30	361	391
Share of profits	–	254	254
Disposals and repayments	(52)	(585)	(637)
Impairment	(51)	(32)	(83)
Exchange movements	–	(99)	(99)
<b>Closing book value</b>	<b>261</b>	<b>1,300</b>	<b>1,561</b>

Details of significant Group entities are given in Note 30.

	Company 2014 Equity investments £m	Company 2014 Loans and receivables £m	Company 2014 Total £m
Opening book value	278	1,403	1,681
Additions	60	285	345
Share of profits	–	55	55
Disposals and repayments	(25)	(253)	(278)
Impairment	21	2	23
Exchange movements	–	(91)	(91)
<b>Closing book value</b>	<b>334</b>	<b>1,401</b>	<b>1,735</b>

## 23 OPERATING LEASES

### LEASES AS LESSEE

Future minimum payments due under non-cancellable operating lease rentals are as follows:

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Less than one year	7	7	–	–
Between one and five years	20	22	–	–
More than five years	17	21	–	–
	<b>44</b>	<b>50</b>	<b>–</b>	<b>–</b>

The Group leases a number of its offices under operating leases. None of the leases include contingent rentals.

During the year to 31 March 2015, £5 million (2014: £5 million) was recognised as an expense in the Statement of comprehensive income in respect of operating leases. Income recognised in the Statement of comprehensive income in respect of subleases was £nil (2014: £nil) as the amounts are netted against the provision in Note 17. The total future sublease payments expected to be received under non-cancellable subleases are £4 million (2014: £5 million).

## 24 COMMITMENTS

### ACCOUNTING POLICY:

Commitments represent amounts the Group has contractually committed to pay third parties but do not yet represent a charge or asset. This gives an indication of committed future cash flows. Commitments at the year end do not impact on the Group's financial results for the year.

	Group 2015 due within 1 year £m	Group 2015 due between 2 and 5 years £m	Group 2015 due over 5 years £m	Group 2015 Total £m	Group 2014 due within 1 year £m	Group 2014 due between 2 and 5 years £m	Group 2014 due over 5 years £m	Group 2014 Total £m
Equity and loan investments	68	–	–	<b>68</b>	66	5	–	<b>71</b>

	Company 2015 due within 1 year £m	Company 2015 due between 2 and 5 years £m	Company 2015 due over 5 years £m	Company 2015 Total £m	Company 2014 due within 1 year £m	Company 2014 due between 2 and 5 years £m	Company 2014 due over 5 years £m	Company 2014 Total £m
Equity and loan investments	24	–	–	<b>24</b>	42	5	–	<b>47</b>

The amounts shown above include commitments made by the Group and Company of £33 million (2014: £63 million) and £15 million (2014: £39 million) respectively, to create warehouse facilities in Europe to support the creation of senior secured debt portfolios ahead of future CLO fund launches. These commitments are due within one year.

Further details on these warehouses are detailed in Notes 12 and 25.

For commitments to Private Equity funds managed and advised by the Group refer to page 17.



## 25 CONTINGENT LIABILITIES

### ACCOUNTING POLICY:

Contingent liabilities are potential liabilities where there is even greater uncertainty, which could include a dependency on events not within the Group's control, but where there is a possible obligation. Contingent liabilities are only disclosed and not included within the Statement of financial position.

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Contingent liabilities relating to guarantees available to third parties in respect of investee companies	14	5	14	5

The contingent liability at 31 March 2015 related to an investee company that has been sold post year end. The contingent liability was eliminated on the date of disposal.

### OTHER CONTINGENT LIABILITIES

The Company has provided a guarantee to the Trustees of the 3i Group Pension Plan in respect of liabilities of 3i plc to the Plan. 3i plc is the sponsor of the 3i Group Pension Plan. On 4 April 2012, the Company transferred eligible assets (£150 million of ordinary shares in 3i Infrastructure plc as defined by the agreement) to a wholly-owned subsidiary of the Group. The Company will retain all income and capital rights in relation to the 3i Infrastructure plc shares, as eligible assets, unless the Company becomes insolvent or fails to comply with material obligations in relation to the agreement with the Trustees, all of which are under its control. The fair value of eligible assets at 31 March 2015 was £193 million (2014: £162 million).

3i has entered into warehouse arrangements in Europe to support the creation of senior secured debt portfolios ahead of future CLO fund launches. Whilst in the warehouse phase, 3i is subject to optional margin calls in the event of market falls. The current capital at risk is restricted to £15 million at 31 March 2015 (2014: £17 million) and further detail can be found in Note 29.

At 31 March 2015, there was no material litigation outstanding against the Company or any of its subsidiary undertakings.

## 26 RETIREMENT BENEFITS

### ACCOUNTING POLICY:

Payments to defined contribution retirement benefit plans are charged to the Statement of comprehensive income as they fall due.

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit method with actuarial valuations being carried out at each balance sheet date. Interest on the net defined benefit liability/asset, calculated using the discount rate used to measure the defined benefit obligation, is recognised in the income statement. Re-measurement gains or losses are recognised in full as they arise in other comprehensive income.

A retirement benefit deficit is recognised in the balance sheet to the extent that the present value of the defined benefit obligations exceeds the fair value of plan assets.

A retirement benefit surplus is recognised in the balance sheet where the fair value of plan assets exceeds the present value of the defined benefit obligations limited to the extent that the Group can benefit from that surplus.

### RETIREMENT BENEFIT PLANS

#### (i) Defined contribution plans

The Group operates a number of defined contribution retirement benefit plans for qualifying employees throughout the Group. The assets of these plans are held separately from those of the Group. The employees of the Group's subsidiaries in France are members of a state managed retirement benefit plan operated by the country's government. 3i Europe plc's French branch is required to contribute a specific percentage of payroll costs to the retirement benefit scheme to fund these benefits.

The total expense recognised in the Statement of comprehensive income is £3 million (2014: £3 million), which represents the contributions payable to these plans. There were no outstanding payments due to these plans at the balance sheet date.

## 26 RETIREMENT BENEFITS CONTINUED

### (ii) Defined benefit plans

The Group operates a final salary defined benefit plan for qualifying employees of its subsidiaries in the UK ("the Plan"). The Plan is approved by HMRC for tax purposes and is operated separately from the Group and managed by an independent set of Trustees, whose appointment is determined by the Plan's documentation. The Plan is subject to UK funding regulations, which require the Group and the Trustees to agree a funding strategy and contribution schedule where necessary.

Membership of the Plan has not been offered to new employees joining 3i since 1 April 2006. The Plan was closed to the future accrual of benefits by members with effect from 5 April 2011, although the final salary link will be maintained on existing accruals. Members of the Plan have been invited to join the Group's defined contribution plan with effect from 6 April 2011. The defined benefit plan is a funded scheme, the assets of which are independent of the Company's finances and are administered by the Trustees. The Trustees are responsible for managing and investing the Plan's assets and for monitoring the Plan's funding position. As the Plan is now closed to future accrual, measures have been taken to de-risk the Plan through changes to its investment policy.

The valuation of the Plan has been updated on an IAS 19 basis by an independent qualified actuary as at 31 March 2015.

Employees in Germany and Spain are entitled to a pension based on their length of service. 3i Deutschland GmbH and the German and Spanish branches of 3i Europe plc contribute to individual investment policies for their employees and have agreed to indemnify any shortfall on an employee's investment policy should it arise. The total value of these investment policies intended to cover pension liabilities is £1 million (2014: £1 million) and the future liability calculated by German and Spanish actuaries is £20 million (2014: £15 million). The amounts recognised in the income statement for the year and other comprehensive income for these schemes are a £1 million expense (2014: £1 million expense) and a £7 million expense (2014: £1 million gain) respectively.

The amount recognised in the Statement of financial position in respect of the Group's defined benefit plans are as follows:

	2015 £m	2014 £m
Present value of funded obligations	846	687
Fair value of the Plan assets	(1,055)	(898)
Asset restriction	73	74
Retirement benefit surplus in respect of the Plan	(136)	(137)
Retirement benefit deficit in respect of other defined benefit schemes	19	14

The asset restriction relates to tax that would be deducted at source in respect of a refund of the Plan surplus. Amounts recognised in the Statement of comprehensive income in respect of the Plan are as follows:

	2015 £m	2014 £m
<b>Included in interest payable</b>		
Interest income on net defined benefit asset	(5)	(4)
<b>Included in other comprehensive income</b>		
Re-measurement loss/(gain)	11	(17)
Asset restriction	(4)	7
Total re-measurement loss/(gain) and asset restriction	7	(10)
<b>Total</b>	<b>2</b>	<b>(14)</b>

The re-measurement loss recognised in the financial statements is £14 million (2014: £11 million gain). The remaining balance relates to losses on our overseas schemes, as noted above.

Changes in the present value of the defined benefit obligation were as follows:

	2015 £m	2014 £m
Opening defined benefit obligation	687	720
Interest on Plan liabilities	30	31
Re-measurement (gain)/loss:		
– (gain)/loss from change in demographic assumptions	(2)	11
– loss/(gain) from change in financial assumptions	157	(7)
– experience gains	(3)	(41)
Benefits paid	(23)	(27)
<b>Closing defined benefit obligation</b>	<b>846</b>	<b>687</b>

## 26 RETIREMENT BENEFITS CONTINUED

Changes in the fair value of the Plan assets were as follows:

	2015 £m	2014 £m
Opening fair value of the Plan assets	898	904
Interest on Plan assets	38	38
Actual return on Plan assets less interest on Plan assets	141	(20)
Employer contributions	1	3
Benefits paid	(23)	(27)
<b>Closing fair value of the Plan assets</b>	<b>1,055</b>	<b>898</b>

Contributions paid to the Plan are related party transactions as defined by IAS 24 Related party transactions.

The fair value of the Plan assets at the balance sheet date is as follows:

	2015 £m	2014 £m
Equities	222	198
Corporate bonds	213	207
Gilts	610	482
Other	10	11
	<b>1,055</b>	<b>898</b>

The Plan's assets are all invested with Legal and General Investment Management in quoted and liquid funds.

The Plan's assets do not include any of the Group's own equity instruments nor any property in use by the Group.

Changes in the asset restriction were as follows:

	2015 £m	2014 £m
Opening asset restriction	74	64
Interest on asset restriction	3	3
Re-measurements	(4)	7
<b>Closing asset restriction</b>	<b>73</b>	<b>74</b>

The principal assumptions made by the actuaries and used for the purpose of the year end valuation of the Plan were as follows:

	2015	2014
Discount rate	3.3%	4.5%
Expected rate of salary increases	5.6%	5.9%
Expected rate of pension increases	3.2%	3.5%
Retail Price Index (RPI) inflation	3.1%	3.4%
Consumer Price Index (CPI) inflation	2.1%	2.4%

In addition, it is assumed that members exchange 25% of pension for lump sum at retirement on the conversion terms in place at 31 March 2015 with an allowance for the terms to increase in future. The duration of the Plan's defined benefit obligation at the accounting date was around 21 years.

## 26 RETIREMENT BENEFITS CONTINUED

The post-retirement mortality assumption used to value the benefit obligation at 31 March 2015 is 80% of the S1NA Light tables allowing for improvements from 2003 in line with the CMI 2012 core projections with a long-term annual rate of improvement of 1.5% (unchanged from 31 March 2014). The life expectancy of a male member reaching age 60 in 2035 (2014: 2034) is projected to be 33.4 (2014: 33.3) years compared to 31.1 (2014: 31.0) years for someone reaching 60 in 2015.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Change in assumption	Impact on defined benefit obligation	
		2015	2014
Discount rate	Decrease by 0.1%	Increase by £12 million	Increase by £9 million
Retail Price Index (RPI) inflation	Increase by 0.1%	Increase by £11 million	Increase by £8 million
Life expectancy	Increase by 1 year	Increase by £16 million	Increase by £11 million

The above sensitivity analysis is based on changing one assumption whilst all others remain constant. In practice this is unlikely to occur and changes in some of the assumptions may be correlated.

Through its defined benefit plan the Group is exposed to a number of risks, the most significant of which are detailed below:

Asset volatility	A fall in the value of the Plan's assets may reduce the value of the defined benefit surplus and could affect the future funding requirements. To reduce the volatility of the Plan's assets, the Trustees have implemented an investment strategy that reduces the Plan's equity holdings by switching them to bonds over time. The Plan's assets are also diversified across different asset classes.
Changes in bond yields	A decrease in corporate bond yields will increase the Plan's IAS 19 defined benefit obligation. However, the Plan holds a proportion of its assets in corporate bonds and so any increase in the defined benefit obligation would be partially offset by an increase in the value of the Plan's assets.
Inflation risk	The Plan's defined benefit obligations are linked to inflation, and higher inflation will lead to higher liabilities. The majority of the Plan's assets are either unaffected by or only loosely correlated with inflation, meaning that an increase in inflation could reduce or eliminate the defined benefit surplus.
Life expectancy	The Plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the Plan's defined benefit obligation.

As the Plan was closed to future accrual of benefits by members with effect from 5 April 2011, the Group ceased to make regular contributions to the Plan in the year to 31 March 2012.

The triennial actuarial funding valuation as at 30 June 2013 was completed in March 2014. The results of that valuation showed that the plan had an actuarial surplus of £1 million at 30 June 2013 and as a result the Group was not required to make contributions to the Plan in respect of that valuation. The contingent asset arrangement entered into during FY2013, details of which are provided in Note 25, remains in place. It is expected that the next triennial actuarial funding valuation exercise will be based on the financial position of the Plan as at 30 June 2016.

## 27 SHARE-BASED PAYMENTS

### ACCOUNTING POLICY:

The Group has equity-settled and cash-settled share-based payment transactions with certain employees. Equity-settled schemes are measured at fair value at the date of grant, which is then recognised in the Statement of comprehensive income over the period that employees provide services, generally the period between the start of performance period and the vesting date of the shares. The number of shares expected to vest takes into account the likelihood that performance and services conditions included in the terms of the award will be met.

Fair value is measured by use of an appropriate model which takes into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and any other relevant factors. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of 3i Group plc. The charge is adjusted at each balance sheet date to reflect the actual number of forfeitures, cancellations and leavers during the period. The movement in cumulative charges since the previous balance sheet is recognised in the Statement of comprehensive income, with a corresponding entry in equity.

Liabilities arising from cash-settled share-based payment transactions are recognised in the Statement of comprehensive income over the vesting period. They are fair valued at each reporting date. The cost of cash-settled share-based payment transactions are adjusted for the forfeitures of the participants' rights that no longer meet the plan requirements as well as for early vesting.

Share-based payments are in certain circumstances made in lieu of annual cash bonuses or carried interest payments. The cost of the share-based payments is allocated either to operating expenses (bonuses) or carried interest depending on the original driver of the award. Executive Director Long Term Incentives are allocated to operating expenses.

The total cost recognised in the Statement of comprehensive income is shown below:

	2015 £m	2014 £m
Share awards included as operating expenses <sup>1</sup>	15	6
Share awards included as Carried interest <sup>1</sup>	4	2
Cash-settled share awards	3	2
	<b>22</b>	<b>10</b>

<sup>1</sup> Credited to equity.

## Notes to the accounts continued

**27 SHARE-BASED PAYMENTS CONTINUED**

The features of the Group's share schemes for Executive Directors are described in the Report of the Board on Directors' remuneration on pages 72 to 81. To ensure that employees' interests are aligned with shareholders, a significant amount of variable compensation paid to higher earning employees is deferred into shares that vest over a number of years. For legal, regulatory or practical reasons certain participants may be granted "phantom awards" under these schemes, which are intended to replicate the financial effects of a share award without entitling the participant to acquire shares. The carrying amount of liabilities arising from share-based payment transactions at 31 March 2015 is £5 million (2014: £4 million).

For the share-based awards granted during the year, the weighted average fair value of those options at 31 March 2015 was 323 pence (2014: 345 pence).

The main assumptions for the valuation of certain share-based awards with market conditions attached comprised:

Valuation methodology	Share price at issue	Exercise price	Expected volatility	Expected option life in years	Dividend Yield	Risk free interest rate
Binomial and Monte Carlo models	433.6p	–	34%	3	–	1.2%
Black Scholes	401.9p	–	30%	3	4.6%	1.4%

Expected volatility was determined from the historical three year volatility at the date of grant, commensurate with the performance period.

**MOVEMENTS IN SHARE AWARDS**

Share-based awards have no exercise prices outstanding and the number of awards are as follows:

	2015 Number	2014 Number
Outstanding at the start of the year	17,454,763	13,773,834
Granted	2,483,913	6,058,327
Exercised	(3,141,620)	(1,503,366)
Lapsed	(780,433)	(874,032)
<b>Outstanding at the end of year</b>	<b>16,016,623</b>	<b>17,454,763</b>
<b>Weighted average remaining contractual life of awards outstanding in years</b>	<b>4.45</b>	<b>4.74</b>
<b>Exercisable at the end of the year</b>	<b>186,481</b>	<b>50,354</b>

The weighted average market price at the date of exercise was 426 pence (2014: 369 pence)

**HOLDINGS OF 3i GROUP PLC SHARES**

The Group has established an employee benefit trust and the total number of 3i Group plc shares held in this trust at 31 March 2015 was 24 million (2014: 27 million). Dividend rights have been waived on these shares. The total market value of the shares held in trust based on the year end share price of £4.82 (2014: £3.98) was £115 million (2014: £107 million).



## 28 FINANCIAL RISK MANAGEMENT

### INTRODUCTION

A review of the Group's objectives, policies and processes for managing and monitoring risk is set out in the Risk section. This Note provides further detail on financial risk management, cross-referring to the Risk section where applicable, and includes quantitative data on specific financial risks.

The Group is a highly selective investor and each investment is subject to an individual risk assessment through an investment approval process. The Group's Investment Committee is part of the overall risk management framework set out in the Risk section. The risk management processes of the Company are aligned with those of the Group and both the Group and the Company share the same financial risks.

### FINANCIAL RISKS

#### Concentration risk

3i seeks to diversify risk through significant dispersion of investments by geography, economic sector, asset class and size as well as through the maturity profile of its investment portfolio. Although 3i does not set maximum limits for asset allocation, it does have a maximum exposure limit. This is detailed in the Investment policy on page 53 of the Directors' Report. Quantitative data regarding the concentration risk of the portfolio across geographies can be found in the Segmental analysis in Note 1 and in the 25 large investments table on pages 93 and 134.

#### Credit risk

The Group is subject to credit risk on its unquoted investments, derivatives, cash and deposits. The Group's cash and deposits are held with a variety of counterparties with 61% of the Group's surplus cash held on demand in AAA rated banks and 23% held in short-term reverse repurchase agreements with banks rated A or higher using Gilts as collateral. The balance is held on short-term deposit with banks with a credit rating of A or higher. The credit quality of unquoted investments, which are held at fair value and include debt and equity elements, is based on the financial performance of the individual portfolio companies. The credit risk relating to these assets is based on their enterprise value and is reflected through fair value movements. The credit quality of the assets is based on the financial performance of the individual portfolio companies. Where the portfolio company has failed or is expected to fail in the next 12 months, the Group's policy is to record a provision for the full amount of the loan. Further detail can be found in the Price risk – market fluctuations disclosure in this Note and the sensitivity disclosure to changes in the valuation assumptions is provided in the valuation section of Note 12.

#### Liquidity risk

Liquidity outlook is monitored weekly by management and regularly by the Board in the context of periodic strategic reviews of the balance sheet. The new investment pipeline and forecast realisations are closely monitored and assessed against our vintage control policy. These are noted in the risk mitigation section on page 43 of the Risk section. The table below analyses the maturity of the Group's gross contractual liabilities.

Financial liabilities (excluding foreign exchange contracts)

As at 31 March 2015	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due more than 5 years £m	Total £m
Gross commitments:					
Fixed loan notes	49	289	106	896	1,340
Committed multi-currency facility	1	1	2	–	4
Carried interest and performance fees payable within one year	13	–	–	–	13
Acquisition related earn-out charges payable	17	10	–	–	27
Trade and other payables	152	–	–	–	152
<b>Total</b>	<b>232</b>	<b>300</b>	<b>108</b>	<b>896</b>	<b>1,536</b>

Gross commitments include principal amounts and interest and fees where relevant. Carried interest and performance fees payable greater than one year of £72 million (2014: £30 million) have no stated maturity as they result from investment related transactions and it is not possible to identify with certainty the timing of when the investments will be sold.

## Notes to the accounts continued

**28 FINANCIAL RISK MANAGEMENT CONTINUED**

## Forward foreign exchange contracts

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due more than 5 years £m	Total £m
As at 31 March 2015					
Gross amount receivable for forward foreign exchange contracts	58	–	–	–	58
Gross amount payable for forward foreign exchange contracts	(58)	–	–	–	(58)
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

## Financial liabilities (excluding forward foreign exchange contracts)

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due more than 5 years £m	Total £m
As at 31 March 2014 (restated)					
Gross commitments:					
Fixed loan notes	51	51	396	931	1,429
Committed multi-currency facility	2	2	–	–	4
Carried interest and performance fees payable within one year	6	–	–	–	6
Acquisition related earn-out charges payable	10	10	8	–	28
Trade and other payables	166	–	–	–	166
<b>Total</b>	<b>235</b>	<b>63</b>	<b>404</b>	<b>931</b>	<b>1,633</b>

## Forward foreign exchange contracts

	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 5 years £m	Due more than 5 years £m	Total £m
As at 31 March 2014					
Gross amount receivable for forward foreign exchange contracts	108	–	–	–	108
Gross amount payable for forward foreign exchange contracts	(112)	–	–	–	(112)
<b>Total amount payable</b>	<b>(4)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(4)</b>

The Company disclosures are the same as those for the Group with the following exceptions; carried interest and performance fees payable within one year is nil (2014: nil), acquisition related earn-out charges payable within one year is £11 million (2014: £10 million), acquisition related earn-out charges payable within one and two years is £10 million (2014: £8 million), acquisition related earn-out charges payable between 2 and 5 years is nil (2014: £8 million) and trade and other payables within one year is £327 million (2014: £292 million).

**Market risk**

The valuation of the Group's investment portfolio is largely dependent on the underlying trading performance of the companies within the portfolio but the valuation and other items in the financial statements can also be affected by interest rate, currency and quoted market fluctuations. The Group's sensitivity to these items is set out below.

**(i) Interest rate risk**

Interest rate risk has primarily been managed through a reduction in gross debt. The direct impact of a movement in interest rates is relatively small as the Group's outstanding debt is fixed rate. The sensitivities below arise principally from changes in interest receivable on cash and deposit.

An increase of 100 basis points, based on the closing balance sheet position over a 12 month period, would lead to an approximate increase in total comprehensive income of £9 million (2014: £8 million increase) for the Group and £8 million income (2014: £6 million) for the Company. In addition, the Group and Company have indirect exposure to interest rates through changes to the financial performance and valuation of portfolio companies caused by interest rate fluctuations.

## 28 FINANCIAL RISK MANAGEMENT CONTINUED

### (ii) Currency risk

The Group's net assets in euro, US dollar, Swedish krona, Indian rupee, Chinese renminbi, Brazilian real and all other currencies combined is shown in the table below. This sensitivity analysis is performed based on the sensitivity of the Group's net assets to movements in foreign currency exchange rates assuming a 10% movement in exchange rates against sterling. The sensitivity of the Company to foreign exchange risk is not materially different from the Group.

The Group considers currency risk on specific investment and realisation transactions and has reduced hedging on a consolidated basis over time. Further information on how currency risk is managed is provided on page 26 in the Financial review section.

	Sterling £m	Euro £m	US dollar £m	Swedish krona £m	Indian rupee £m	Chinese renminbi £m	Brazilian real £m	Other £m	Total £m
As at 31 March 2015									
Net assets	1,271	1,367	990	20	71	35	26	26	3,806
<b>Sensitivity analysis</b>									
Assuming a 10% movement in exchange rates against sterling:									
Impact on exchange movements in the Statement of comprehensive income	n/a	124	75	10	3	3	2	2	219
Impact on the translation of foreign operations in other comprehensive income	n/a	12	(7)	1	3	–	–	1	10
<b>Total</b>	<b>n/a</b>	<b>136</b>	<b>68</b>	<b>11</b>	<b>6</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>229</b>
As at 31 March 2014 (restated)									
Net assets	948	1,317	898	(6)	62	26	33	30	3,308
<b>Sensitivity analysis</b>									
Assuming a 10% movement in exchange rates against sterling:									
Impact on exchange movements in the Statement of comprehensive income	n/a	108	65	7	3	2	3	2	190
Impact on the translation of foreign operations in other comprehensive income	n/a	15	(6)	1	3	–	–	–	13
<b>Total</b>	<b>n/a</b>	<b>123</b>	<b>59</b>	<b>8</b>	<b>6</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>203</b>

### (iii) Price risk – market fluctuations

The Group's management of price risk, which arises primarily from quoted and unquoted equity instruments, is through the careful consideration of the investment, asset management and divestment decisions at the Investment Committee. The Investment Committee's role in risk management is discussed further in the Risk section.

A 15% change in the fair value of those investments would have the following direct impact on the Statement of comprehensive income:

	Quoted investment £m	Unquoted investment £m	Total £m
<b>Group</b>			
At 31 March 2015	60	191	<b>251</b>
At 31 March 2014 (restated)	39	199	<b>238</b>
<b>Company</b>			
At 31 March 2015	60	174	<b>234</b>
At 31 March 2014	39	192	<b>231</b>

## Notes to the accounts continued

**29 RELATED PARTIES AND INTERESTS IN OTHER ENTITIES**

The Group has various related parties stemming from relationships with limited partnerships managed by the Group, its investment portfolio (including unconsolidated subsidiaries), its advisory arrangements and its key management personnel. In addition, the Company has related parties in respect of its subsidiaries. Some of these subsidiaries are held at fair value (unconsolidated subsidiaries) due to the treatment prescribed in IFRS 10.

**RELATED PARTIES****Limited partnerships**

The Group manages a number of external funds which invest through limited partnerships. Group companies act as the general partners of these limited partnerships and exert significant influence over them. The following amounts have been included in respect of these limited partnerships:

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Statement of comprehensive income				
Carried interest receivable/(payable)	28	(1)	28	(1)
Fees receivable from external funds	34	33	–	–

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Statement of financial position				
Carried interest receivable	33	8	33	8

**Investments**

The Group makes minority investments in the equity of unquoted and quoted investments. This normally allows the Group to participate in the financial and operating policies of that company. It is presumed that it is possible to exert significant influence when the equity holding is greater than 20%. These investments are not equity accounted for (as permitted by IFRS 10) but are related parties. The total amounts included for these investments are as follows:

	Group 2015 £m	Group 2014 (restated) £m	Company 2015 £m	Company 2014 £m
Statement of comprehensive income				
Realised profit over value on the disposal of investments	13	12	13	12
Unrealised profits on the revaluation of investments	3	62	15	59
Portfolio income	26	12	17	11

	Group 2015 £m	Group 2014 (restated) £m	Company 2015 £m	Company 2014 £m
Statement of financial position				
Unquoted investments	560	587	450	542

From time to time, transactions occur between related parties within the investment portfolio that the Group influences to facilitate the reorganisation or recapitalisation of an investee company. These transactions are made on an arm's-length basis.

**Advisory arrangements**

The Group acts as an adviser to 3i Infrastructure plc, which is listed on the London Stock Exchange. The following amounts have been included in respect of this advisory relationship:

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Statement of comprehensive income				
Unrealised profits on the revaluation of investments	46	3	46	3
Fees receivable from external funds	12	10	–	–
Performance fees	45	–	–	–
Dividends	12	12	12	12

	Group 2015 £m	Group 2014 £m	Company 2015 £m	Company 2014 £m
Statement of financial position				
Quoted equity investments	288	242	288	242
Performance fees	45	–	–	–

## 29 RELATED PARTIES AND INTERESTS IN OTHER ENTITIES CONTINUED

### Subsidiaries

Transactions between the Company and its fully consolidated subsidiaries, which are related parties of the Company, are eliminated on consolidation. Details of related party transactions between the Company and its subsidiaries are detailed below.

### Management, administrative and secretarial arrangements

The Company has appointed 3i Investments plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, as investment manager of the Group. 3i Investments plc received a fee of £13 million (2014: £23 million) for this service.

The Company has appointed 3i plc, a wholly-owned subsidiary of the Company incorporated in England and Wales, to provide the Company with a range of administrative and secretarial services. 3i plc received a fee of £145 million (2014: £98 million) for this service.

### Other subsidiaries

The Company borrows funds from, and lends funds to certain subsidiaries and pays and receives interest on the outstanding balances. The interest income that is included in the Company's Statement of comprehensive income is £1 million (2014: £2 million) and the interest expense included is nil (2014: £1 million).

### Key management personnel

The Group's key management personnel comprise the members of the Executive Committee and the Board's non-executive Directors. The following amounts have been included in respect of these individuals:

	Group 2015 £m	Group 2014 (restated) £m
Statement of comprehensive income		
Salaries, fees, supplements and benefits in kind	5	5
Cash bonuses <sup>1</sup>	4	5
Carried interest and performance fees payable	17	10
Share-based payments	5	3

1 2014 charge restated to reflect cash bonus only. For further detail, see Directors' remuneration report.

No termination benefits were paid to Executive Directors during the year or the prior year.

	Group 2015 £m	Group 2014 £m
Statement of financial position		
Bonuses and share-based payments	14	7
Carried interest and performance fees payable within one year	5	1
Carried interest and performance fees payable after one year	21	6

Carried interest paid in the year to key management personnel was £3 million (2014: £3 million).

## UNCONSOLIDATED STRUCTURED ENTITIES

The application of IFRS 12 requires additional disclosure on the Group's exposure to unconsolidated structured entities.

The Group has exposure to a number of unconsolidated structured entities as a result of its investment activities across its Private Equity, Infrastructure and Debt Management business lines. These structured entities fall into four categories, namely CLO's, debt management warehouses, closed end limited partnerships (Private Equity and Infrastructure funds) and investments in certain portfolio investments.

The nature, purpose and activities of these entities are detailed below along with the nature of risks associated with these entities and the maximum exposure to loss.

## 29 RELATED PARTIES AND INTERESTS IN OTHER ENTITIES CONTINUED

### CLO structured entities

The Group manages CLO vehicles as part of its Debt Management business. These funds predominantly invest in senior secured loans and are financed by investors seeking credit rated, structured, investment returns.

The Group manages these funds, in return for a management fee. The Group also typically invests into the equity tranche of these funds. The Group's attributable stakes in these entities are held at fair value, fees receivable are recognised on an accruals basis and performance fees are accrued when relevant performance hurdles are met.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

Balance sheet line item of asset or liability	Carrying amount		Net £m	Maximum loss exposure £m
	Assets £m	Liabilities £m		
Unquoted investments	119	–	119	119
Fee income receivable	7	–	7	7
<b>Total</b>	<b>126</b>	<b>–</b>	<b>126</b>	<b>126</b>

At 31 March 2015, the total CLO assets under management were £6.5 billion (2014: £5.8 billion). The Group earned dividend income of £16 million (2014: £8 million) and fee income of £30 million (2014: £7 million) during the year from CLO structured entities.

### Warehouse structured entities

Ahead of future CLO fund launches, warehouse facilities are usually established to support the creation of senior secured debt portfolios. These entities are financed by the Group along with the bank appointed to operate the warehouse facility. The Group makes a commitment to the warehouse, typically taking the first loss position and is at risk for margin calls if the portfolio underperforms. The Group's attributable stakes in these warehouses are held at fair value.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

Balance sheet line item of asset or liability	Carrying amount		Net £m	Maximum loss exposure £m
	Assets £m	Liabilities £m		
Unquoted investments	43	–	43	43
<b>Total</b>	<b>43</b>	<b>–</b>	<b>43</b>	<b>43</b>

At 31 March 2015, the total net asset value of the warehouse entities was £43 million (2014: £17 million). The Group earned interest income of £6 million (2014: £2 million) during the year from warehouse structured entities.

### Closed end limited partnerships

The Group manages a number of closed end limited partnerships, which are primarily Private Equity or Infrastructure focused, in return for a management fee. The purpose of these partnerships is to invest in Private Equity or Infrastructure investments for capital appreciation. Limited Partners, which in some cases may include the Group, finance these entities by committing capital to them and cash is drawn down or distributed for financing investment activity.

The Group's attributable stakes in these entities are held at fair value, fees receivable are recognised on an accruals basis and carried interest is accrued when relevant performance hurdles are met.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

Balance sheet line item of asset or liability	Carrying amount		Net £m	Maximum loss exposure £m
	Assets £m	Liabilities £m		
Carried interest receivable	33	–	33	33
<b>Total</b>	<b>33</b>	<b>–</b>	<b>33</b>	<b>33</b>

At 31 March 2015, the total assets under management relating to these entities was £2.2 billion (2014: £2.5 billion). The Group earned fee income of £31 million (2014: £33 million) and carried interest of £28 million (2014: £(1) million) in the year.

## 29 RELATED PARTIES AND INTERESTS IN OTHER ENTITIES CONTINUED

### Investments that are structured entities

The Group makes investments on behalf of itself and third party funds that it manages, for capital appreciation purposes. In a small number of cases, these investments fall under the classification of a structured entity as they are funds managed by the General Partner under a limited partnership agreement.

The Group's attributable stakes in these entities are held at fair value.

The risk and maximum exposure to loss arising from the Group's involvement with these entities are summarised below:

Balance sheet line item of asset or liability	Carrying amount		Net £m	Maximum loss exposure £m
	Assets £m	Liabilities £m		
Unquoted investments	2	–	2	2
<b>Total</b>	<b>2</b>	<b>–</b>	<b>2</b>	<b>2</b>

At 31 March 2015, the total fair value of these investments, including stakes held by third parties was £33 million (2014: £53 million). The Group recognised an unrealised loss of £1 million from investments that are structured entities (2014: £1 million realised profit).

### REGULATORY INFORMATION RELATING TO FEES:

Under AIFMD, 3i Investments plc acts as an Alternative Investment Fund Manager ("AIFM") to 3i Group plc. In performing the activities and functions of the AIFM, the AIFM or another 3i company may pay or receive fees, commissions or non-monetary benefits to or from third parties of the following nature:

- **Transaction fees:** 3i companies receive monitoring and directors' fees from portfolio companies. The amount is agreed with the portfolio company at the time of the investment but may be re-negotiated. Where applicable, 3i may also receive fees on the completion of transactions such as acquisitions, re-financing or syndication either from the portfolio company or a co-investor. Transaction fees paid to 3i are included in portfolio income.
- **Payments for third party services:** 3i companies may retain the services of third party consultants; for example for an independent director or other investment management specialist expertise. The amount paid varies in accordance with the nature of the service and the length of the service period and is usually, but not always, paid/reimbursed by the portfolio companies. The payment may involve a flat fee, retainer or success fee. Such payments, where borne by 3i companies, are usually included in portfolio income.
- **Payments for services from 3i companies:** One 3i company may provide investment advisory services to another 3i company and receive payment for such service.



### 30 PRINCIPAL SUBSIDIARIES

The table below comprises the principal subsidiary undertakings as at 31 March 2015 all of which were wholly-owned, with the exception of 3i Debt Management Limited, which is 75.4% owned and is in turn the 100% owner of 3i Debt Management Investments Limited, and 3i Debt Management US LLC which is 80% owned. The Group has entered into agreements to purchase the remaining 24.6% of the equity of 3i Debt Management Limited and 20% of 3i Debt Management US LLC, currently owned by management, over the next two years. They are incorporated in Great Britain and registered in England and Wales unless otherwise stated.

The introduction of IFRS 10 has resulted in a reassessment of the accounting subsidiaries of the Group. IFRS 10 has reduced the requirements for an entity to be classified as an accounting subsidiary and deems wider control issues, as opposed to equity ownership, as the key determinant when identifying accounting subsidiaries. Under IFRS 10, if the Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee then it has control, and hence the investee is deemed an accounting subsidiary. This is inconsistent with the UK Companies Act where voting rights are the key determinant when identifying accounting subsidiaries, with a larger than 50% holding of voting rights resulting in an entity being classified as a subsidiary. The accounting treatment of each subsidiary is noted in the table below.

As at 31 March 2015, the entire issued share capital of 3i Holdings plc and 75.4% of the issued share capital of 3i Debt Management Limited was held by the Company. The entire issued share capital of all the other principal subsidiary undertakings listed in the table below and 80% of 3i Debt Management US LLC was held by subsidiary undertakings of the Company.

In addition, under the application of IFRS 10, 30 of the portfolio investments are considered to be accounting subsidiaries. As per the investment entity exception under IFRS 10, these are all held at fair value with movements shown in the Statement of comprehensive income. The largest 25 portfolio companies by fair value are detailed on pages 134 and 135. The combination of the table below and that on pages 134 and 135 are deemed by the Directors to fulfil the IFRS 12 disclosure of material subsidiaries.

The Directors are of the opinion that the number of undertakings in respect of which the Company is required to disclose information under Schedule 4 to The Large and Medium-sized Companies and Group's (Accounts and Reports) Regulations 2008 is such that compliance would result in information of excessive length being given. The full disclosure will be annexed to the Company's next annual return.

Name	Country of incorporation	Issued and fully paid share capital	Principal activity	Registered office	Consolidation treatment
3i Holdings plc	England and Wales	1,000,000 ordinary shares of £1	Holding company	16 Palace Street London SW1E 5JD	Consolidated
3i International Holdings	England and Wales	2,715,973 ordinary shares of £10	Holding company		Consolidated
3i plc	England and Wales	110,000,000 ordinary shares of £1	Services		Consolidated
3i Debt Management Limited	England and Wales	1,000,000 ordinary shares of £1	Holding company		Consolidated
3i Debt Management Investments Limited	England and Wales	12,000,000 ordinary shares of £1	Investment manager		Consolidated
3i Investments plc	England and Wales	10,000,000 ordinary shares of £1	Investment manager		Consolidated
3i BIFM Investments Limited	England and Wales	2,570,000 ordinary shares of £1	Investment manager		Consolidated
3i Europe plc	England and Wales	500,000 ordinary shares of £1	Investment adviser		Consolidated
3i Nordic plc	England and Wales	500,000 ordinary shares of £1	Investment adviser		Consolidated
Gardens Pension Trustees Limited	England and Wales	100 ordinary shares of £1	Pension fund trustee		Consolidated
3i Corporation	USA	15,000 shares of common stock (no par value)	Investment manager	1 Grand Central Place, 60 East 42nd Street, Suite 4100, New York NY 10165 USA	Consolidated
3i Debt Management US LLC	USA	100 shares of common stock (no par value)	Investment manager		Consolidated
3i Deutschland Gesellschaft für Industriebeteiligungen GmbH	Germany	€25,564,594	Investment manager	Bockenheimer Landstrasse 2-4 60306 Frankfurt am Main Germany	Consolidated

## 31 RESTATEMENT OF PRIOR PERIOD INFORMATION

As explained in the Significant accounting policies, the Group has restated comparative information where relevant, following the early adoption of changes provided in the narrow scope amendment to IFRS 10.

The impact of this restatement on a line by line basis is presented below.

### IMPACT ON CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2014

	As originally reported £m	Effect of restatement £m	Restated presentation £m
Unrealised profit on the revaluation of investments	77	4	81
Fair value movements on investment entity subsidiaries	454	(21)	433
Fees receivable from external funds	50	25	75
Operating expenses	(118)	(18)	(136)
Interest receivable	2	1	3
(Expense)/income from fair value subsidiaries	(5)	13	8
Carried interest and performance fees receivable	(1)	4	3
Carried interest and performance fees payable	(16)	(1)	(17)
Acquisition related earn-out charges	–	(6)	(6)
Income taxes	(2)	(1)	(3)
Other income statement items	37	–	37
<b>Total comprehensive income for the year</b>	<b>478</b>	<b>–</b>	<b>478</b>

### IMPACT ON CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2014

	As originally reported £m	Effect of restatement £m	Restated presentation £m
<b>Assets</b>			
Unquoted investments	1,279	45	1,324
Investments in investment entities	1,973	(64)	1,909
Carried interest and performance fees receivable	8	9	17
Intangible assets	10	15	25
Deferred income taxes	1	2	3
Other current assets	72	4	76
Cash and cash equivalents	643	31	674
Other assets	402	–	402
<b>Total assets</b>	<b>4,388</b>	<b>42</b>	<b>4,430</b>
<b>Liabilities</b>			
Carried interest and performance fees payable	(26)	(4)	(30)
Acquisition related earn-out charges payable	(2)	(16)	(18)
Deferred income taxes – non current	–	(2)	(2)
Provisions	(4)	(1)	(5)
Trade and other payables	(158)	(8)	(166)
Acquisition related earn-out charges payable	–	(10)	(10)
Current income tax	(2)	(2)	(4)
Deferred income taxes – current	(1)	1	–
Other liabilities	(887)	–	(887)
<b>Total liabilities</b>	<b>(1,080)</b>	<b>(42)</b>	<b>(1,122)</b>
<b>Equity</b>			
Translation reserve	242	1	243
Capital reserve	1,051	(1)	1,050
Other reserves	2,015	–	2,015
<b>Total equity</b>	<b>3,308</b>	<b>–</b>	<b>3,308</b>

**31 RESTATEMENT OF PRIOR PERIOD INFORMATION CONTINUED****IMPACT ON CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2014**

	As originally reported £m	Effect of restatement £m	Restated presentation £m
<b>Cash flow from operating activities</b>			
Purchase of investments	(114)	(34)	(148)
Proceeds from investments	452	2	454
Cash inflow from fair value subsidiaries	46	16	62
Portfolio fees received	4	2	6
Fees received from external funds	52	23	75
Carried interest and performance fees received	1	4	5
Carried interest and performance fees paid	(20)	5	(15)
Operating expenses	(125)	(6)	(131)
Income taxes paid	(3)	(4)	(7)
Other cash flows	(243)	–	(243)
<b>Change in cash and cash equivalents</b>	<b>50</b>	<b>8</b>	<b>58</b>
Opening cash and cash equivalents	610	23	633
Effect of exchange rate fluctuations	(17)	–	(17)
<b>Closing cash and cash equivalents</b>	<b>643</b>	<b>31</b>	<b>674</b>

# Independent Auditor's report

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF 3i GROUP PLC

### Opinion on Financial statements

In our opinion:

- the Financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2015 and of the Group's profit for the year then ended;
- the Group Financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs);
- the parent Company Financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the Financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial statements, Article 4 of the IAS Regulation.

### What we have audited

We have audited the Financial statements of 3i Group plc for the year ended 31 March 2015 which comprise the Consolidated Statement of comprehensive income, the Consolidated and Parent Company Statements of changes in equity, the Consolidated and parent Company Statements of financial position, the Consolidated and Parent Company cash flow statements and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and IFRS and, as regards the parent company Financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' responsibilities set out on pages 55 and 56, the directors are responsible for the preparation of the Financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the Financial statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial statements sufficient to give reasonable assurance that the Financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Financial statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited Financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Independent Auditor's report continued

**Our assessment of risk of material misstatement and our response to these risks**

The risks included in the table below represent those material risks of misstatement that have had the greatest impact on our audit strategy and approach for the year ended 31 March 2015 (including the allocation of resources and the directing of efforts of the engagement team). The table also includes our audit response to each of these risks:

Risk identified	Our response
<p><i>Group and parent Company</i>  <u>Valuation of unquoted proprietary investments and resulting impact on the Consolidated statement of comprehensive income</u>  Please refer to page 67, Audit and Compliance Committee report and notes 10 and 11 to the audited Financial statements.</p> <p>The proprietary investment portfolio comprises a large number of unquoted securities. The valuation policy followed by the Group is based on the International Private Equity and Venture Capital Valuation (IPEV) guidelines. Owing to the illiquid nature of these investments the assessment of fair valuation necessitates significant and complex judgements by management.</p> <p>Inappropriate judgements made in the assessment of fair value, in particular, in respect of earnings multiples, liquidity discounts, discount rates and valuation multiple selection could have a significant impact on the value of the unquoted investment portfolio, and therefore on the return generated for the shareholders.</p>	<ul style="list-style-type: none"> <li>■ We obtained an understanding of management's processes and controls around the fair valuation of unquoted proprietary investments by performing walkthrough procedures, testing relevant controls and by reviewing the valuation governance structure and protocols around management's oversight of the valuation of unquoted investments.</li> <li>■ We assessed that management's valuation policies were in compliance with IFRS and the IPEV guidelines and that the valuation approach adopted by management was appropriate.</li> <li>■ With the assistance of our valuation experts, we formed an independent assessment of the valuation of a sample of unquoted investments to provide further assurance on the appropriateness of the portfolio valuation. Our valuation experts conducted this independent assessment by reference to relevant industry and market valuation considerations.</li> <li>■ In respect of the valuation model inputs, on a sample basis, we agreed the earnings and earnings multiples to investment company and comparable company results, transaction multiples, management accounts, and other information available from relevant external market sources.</li> <li>■ We re-performed the calculation of the valuation models on a sample basis.</li> <li>■ We identified and discussed with management the rationale for any differences between the exit prices of investments realised during the year against the prior year fair value, to further assess the reasonableness of the current year valuation models and methodology adopted by management.</li> <li>■ We confirmed the impact on the Consolidated Statement of comprehensive income of valuation movements – realised and unrealised.</li> </ul>
Risk identified	Our response
<p><i>Group</i>  <u>Calculation of carried interest and resulting impact on the Consolidated statement of comprehensive income</u>  Please refer to page 66, Audit and Compliance Committee report and note 13 to the audited financial statements.</p> <p>The carried interest agreements are complex in nature. Carried interest reflects amounts payable to investment executives and amounts receivable in respect of the 3i managed funds. The valuation of carried interest is based on the underlying valuation of the investment portfolio. The process of calculating carry payable and receivable requires the use of manual calculations.</p> <p>The complexities inherent in the arrangements and the manual nature of the recognition process could have a significant impact on the value of carry payable and receivable and therefore on the return generated for the shareholders.</p>	<ul style="list-style-type: none"> <li>■ We obtained an understanding of management's processes and controls around the carried interest calculations by reviewing the terms and conditions set out in the underlying agreements, performing walkthrough procedures, testing relevant controls and reviewing the governance structure and protocols around management's oversight of the carried interest arrangements.</li> <li>■ We performed analytical procedures in respect of carried interest based on our knowledge of investment realisations, and the performance of the reference investment portfolio.</li> <li>■ On a sample basis we re-performed management's calculation of carried interest; obtained corroborative audit evidence for the inputs used in the calculation and checked conformity with the provisions of the respective agreements.</li> </ul>

In the prior year, the Auditor's report included the first time adoption of IFRS10 as a risk. As the Group has followed the same approach to IFRS 10 this year and as there have been limited changes to the standard, IFRS10 has not been included in the risks identified above, in respect of the current year.

## Our application of materiality

We applied the concept of materiality both in planning and performing our audit, and in evaluating the effect of identified misstatements on our audit and on the Financial statements. For the purposes of determining whether the Financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the Financial statements, would be changed or influenced.

When establishing our overall audit strategy, we determined a magnitude of uncorrected and undetected misstatements that we judged would be material for the Financial statements as a whole. We determined materiality for the Group to be £38 million (2014: £33 million), which is 1% of net asset value. Our evaluation of materiality requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We have derived our materiality calculation based on Net assets as we consider this, on balance, to be the most important financial metric used by shareholders.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgment was that overall performance materiality (that is our tolerance for misstatement in an individual account or balance) for the Group should be 50% of materiality, namely £19 million (2014: £16.7 million). Our objective in adopting this approach is to ensure that total uncorrected and undetected audit differences in the Financial statements as a whole do not exceed our materiality of £38 million.

We agreed with the Audit and Compliance Committee that we would report to the Committee all audit differences in excess of £1.9 million, (2014: £1.6 million), as well as differences below that threshold that, in our view warranted reporting on qualitative grounds.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

## An overview of the scope of our audit

We used a risk-based approach for determining our audit strategy, ensuring that our audit teams performed consistent procedures and focused on addressing the risks that are relevant to the business. This approach focused our audit effort towards higher risk areas, such as significant management judgments.

The investments balance is the most significant part of the balance sheet. Control over the valuation of investments, wherever they are based, is exercised directly by 3i's management in London, and as such is audited by the UK based audit team. In all locations where the Group has operations, the UK based audit team audited all items material to the Group Financial statements.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic report and the Directors' report for the financial year for which the Financial statements are prepared is consistent with the Financial statements.

## Independent Auditor's report continued

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from Branches not visited by us; or
- the parent Company Financial statements and the part of the Directors' Remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Statement of Directors' Responsibilities, set out on pages 55 and 56, in relation to going concern; and
- the part of the Corporate governance statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

**David Canning-Jones** (Senior statutory auditor)  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
London  
Date: 13 May 2015

The maintenance and integrity of the 3i Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of Financial statements may differ from legislation in other jurisdictions.



# Portfolio and other information

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# Portfolio and other information

## 25 LARGE INVESTMENTS

The 25 investments listed below account for 81% of the portfolio at 31 March 2015 (2014: 75%).

For each of our investments we have assessed whether they classify as accounting subsidiaries under IFRS and/or subsidiaries under the UK Companies Act. This assessment forms the basis of our disclosure of accounting subsidiaries in the financial statements.

The UK Companies Act defines a subsidiary based on voting rights, with a greater than 50% majority of voting rights resulting in an entity being classified as a subsidiary. IFRS 10 applies a wider test and, if a Group is exposed, or has rights to variable returns from its involvement with the investee and has the ability to affect these returns through its power over the investee then it has control, and hence the investee is deemed an accounting subsidiary. Accounting subsidiaries under IFRS 10 within the 25 large investments below are noted. None of these investments are UK Companies Act subsidiaries.

In accordance with Section 29 of the Alternative Investment Fund Manager Directive ("AIFMD"), 3i Investments plc, as AIFM, encourages all controlled portfolio companies to make available to employees and investors an Annual report which meets the disclosure requirements of the Directive. These are available either on the portfolio company's website or through filing with the relevant local authorities.

Investment	Description of business	Business line	Geography
Action ●	Non-food discount retailer	Private Equity	Benelux
3i Infrastructure plc ●	Quoted investment company, investing in infrastructure	Infrastructure	UK
Scandlines ●	Ferry operator between Denmark and Germany	Private Equity	Denmark/Germany
Amor/Christ ●	Distributor and retailer of affordable jewellery	Private Equity	Germany
Element Materials Technology ●	Materials testing and inspection	Private Equity	Benelux
Quintiles	Clinical research outsourcing solutions	Private Equity	US
Mayborn ●	Manufacturer and distributor of baby products	Private Equity	UK
ACR	Pan-Asian non life reinsurance	Private Equity	Singapore
Q Holding ●	Precision engineered elastomeric components manufacturer	Private Equity	US
AES Engineering	Manufacturer of mechanical seals and support systems	Private Equity	UK
Basic-Fit ●	Discount gyms operator	Private Equity	Benelux
Tato	Manufacture and sale of speciality chemicals	Private Equity	UK
GIF ●	International transmission testing specialist	Private Equity	Germany
Dynatect ●	Manufacturer of engineered, mission critical protective equipment	Private Equity	US
Aspen Pumps ●	Manufacturer of pumps and accessories for the air conditioning, heating and refrigeration industry	Private Equity	UK
Azelis ●	Pan-European speciality chemical distributor	Private Equity	Luxembourg
Mémora ●	Funeral service provider	Private Equity	Spain
JMJ ●	Global management consultancy	Private Equity	US
Geka ●	Manufacturer of brushes, applicators and packaging systems for the cosmetics industry	Private Equity	Germany
Agent Provocateur ●	Women's lingerie and associated products	Private Equity	UK
Refresco Gerber	European bottler of soft drinks and fruit juices for retailers and branded customers	Private Equity	Benelux
OneMed Group ●	Distributor of consumable medical products, devices and technology	Private Equity	Sweden
Eltel Networks ●	Infrastructure services for electricity and telecoms networks	Private Equity	Sweden
MKM	Building materials supplier	Private Equity	UK
Etanco ●	Designer, manufacturer and distributor of fasteners and fixing systems	Private Equity	France

● IFRS accounting subsidiary

First invested in	Valuation basis	Residual cost March 2014 £m	Residual cost March 2015 £m	Valuation March 2014 £m	Valuation March 2015 £m	Relevant transactions in the year
2011	Earnings	57	<b>2</b>	501	<b>592</b>	Refinancing returned £113m of proceeds.
2007	Quoted	302	<b>302</b>	404	<b>481</b>	£20m dividends paid to 3i Group.
2007	DCF	108	<b>114</b>	193	<b>262</b>	
2010/2014	Earnings	50	<b>129</b>	70	<b>165</b>	Follow on investment in Christ of £99m to acquire Christ, a leading retailer for jewellery and watches in Germany.
2010	Earnings	78	<b>62</b>	124	<b>145</b>	
2008	Quoted	52	<b>41</b>	122	<b>144</b>	
2006	Earnings	113	<b>129</b>	116	<b>133</b>	
2006	Industry metric	105	<b>105</b>	101	<b>120</b>	
2014	Earnings	–	<b>100</b>	–	<b>109</b>	New investment.
1996	Earnings	30	<b>30</b>	96	<b>102</b>	
2013	Earnings	84	<b>91</b>	82	<b>102</b>	
1989	Earnings	2	<b>2</b>	85	<b>80</b>	
2013	Earnings	64	<b>68</b>	65	<b>78</b>	
2014	Earnings	–	<b>65</b>	–	<b>71</b>	New investment.
2015	Earnings	–	<b>65</b>	–	<b>64</b>	New investment.
2007	Imminent sale	72	<b>76</b>	26	<b>62</b>	Exit completed in May 2015.
2008	Earnings	141	<b>159</b>	67	<b>61</b>	
2013	Earnings	44	<b>42</b>	43	<b>53</b>	
2012	Earnings	56	<b>69</b>	55	<b>53</b>	
2007	Earnings	49	<b>53</b>	35	<b>53</b>	
2010	Quoted	46	<b>30</b>	42	<b>47</b>	IPO in March 2015 generating £25m of proceeds.
2011	Earnings	108	<b>117</b>	44	<b>47</b>	
2007	Quoted	89	<b>13</b>	70	<b>47</b>	IPO in February 2015 generating £87m of proceeds.
2006	Earnings	20	<b>22</b>	27	<b>43</b>	
2011	Earnings	80	<b>87</b>	44	<b>40</b>	
		1,750	<b>1,973</b>	2,412	<b>3,154</b>	

# Portfolio valuation – an explanation

## POLICY

The valuation policy is the responsibility of the Board, with additional oversight and annual review from the Valuations Committee. Our policy is to value 3i's investment portfolio at fair value and we achieve this by valuing investments on an appropriate basis, applying a consistent approach across the portfolio. The policy ensures that the portfolio valuation is compliant with the fair value guidelines under IFRS and, in so doing, is also compliant with the guidelines issued by the International Private Equity and Venture Capital valuation board (the "IPEV guidelines"). The policy covers the Group's Private Equity, Infrastructure and Debt Management investment valuations. Valuations of the investment portfolio of the Group and its subsidiaries are performed at each quarter end.

Fair value is the underlying principle and is defined as "the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date" (IPEV guidelines, December 2012). Fair value is therefore an estimate and, as such, determining fair value requires the use of judgement.

The quoted assets in our portfolio are valued at their closing bid price at the balance sheet date. The majority of the portfolio, however, is represented by unquoted investments.

## PRIVATE EQUITY UNQUOTED VALUATION

To arrive at the fair value of the Group's unquoted Private Equity investments, we first estimate the entire value of the company we have invested in – the enterprise value. We then apportion that enterprise value between 3i, other shareholders and lenders.

### Determining enterprise value

This enterprise value is determined using one of a selection of methodologies depending on the nature, facts and circumstances of the investment.

Where possible, we use methodologies which draw heavily on observable market prices, whether listed equity markets or reported merger and acquisition transactions, and trading updates from our portfolio.

As unquoted investments are not traded on an active market, the Group adjusts the estimated enterprise value by a liquidity discount. The liquidity discount is applied to the total enterprise value and we apply a higher discount rate for investments where there are material restrictions on our ability to sell at a time of our choosing.

The table on page 137 outlines in more detail the range of valuation methodologies available to us, as well as the inputs and adjustments necessary for each.

### Apportioning the enterprise value between 3i, other shareholders and lenders

Once we have estimated the enterprise value, the following steps are taken:

1. We subtract the value of any claims, net of free cash balances, that are more senior to the most senior of our investments.
2. The resulting attributable enterprise value is apportioned to the Group's investment, and equal ranking investments by other parties, according to contractual terms and conditions, to arrive at a fair value of the entirety of the investment. The value is then distributed amongst the different loan, equity and other financial instruments accordingly.

3. If the value attributed to a specific shareholder loan investment in a company is less than its par or nominal value, a shortfall is implied, which is recognised in our valuation. In exceptional cases, we may judge that the shortfall is temporary; to recognise the shortfall in such a scenario would lead to unrepresentative volatility and hence we may choose not to recognise the shortfall.

### Other factors

In applying this framework, there are additional considerations that are factored into the valuation of some assets.

### Impacts from structuring

Structural rights are instruments convertible into equity or cash at specific points in time or linked to specific events. For example, where a majority shareholder chooses to sell, and we have a minority interest, we may have the right to a minimum return on our investment.

Debt instruments, in particular, may have structural rights. In the valuation, it is assumed third parties, such as lenders or holders of convertible instruments, fully exercise any structural rights they might have if they are "in the money", and that the value to the Group may therefore be reduced by such rights held by third parties. The Group's own structural rights are valued on the basis they are exercisable on the reporting date.

### Assets classified as "terminal"

If we believe an investment has more than a 50% probability of failing in the 12 months following the valuation date, we value the investment on the basis of its expected recoverable amount in the event of failure. It is important to distinguish between our investment failing and the business failing; the failure of our investment does not always mean that the business has failed, just that our recoverable value has dropped significantly. This would generally result in the equity and loan components of our investment being valued at nil. Value movements in the period relating to investments classified as terminal are classified as provisions in our value movement analysis.

## INFRASTRUCTURE UNQUOTED VALUATION

The primary valuation methodology used for infrastructure investments is the discounted cash flow method ("DCF"). Fair value is estimated by deriving the present value of the investment using reasonable assumptions of expected future cash flows and the terminal value and date, and the appropriate risk-adjusted discount rate that quantifies the risk inherent to the investment. The discount rate is estimated with reference to the market risk-free rate, a risk adjusted premium and information specific to the investment or market sector.

## DEBT MANAGEMENT VALUATION

The Group's Debt Management business line typically invests in traded debt instruments and the subordinated notes that it is required to hold in the debt funds which it manages. The traded debt instruments and the subordinated notes are valued using a range of data including broker quotes if available, 3i internal forecasts and discounted cash flow models, trading data where available, and data from third-party valuation providers. Broker quotes and trading data for more liquid holdings are preferred.

Methodology	Description	Inputs	Adjustments	% of portfolio valued on this basis
<b>Earnings (Private Equity)</b>	Most commonly used Private Equity valuation methodology  Used for investments which are profitable and for which we can determine a set of listed companies and precedent transactions, where relevant, with similar characteristics	Earnings multiples are applied to the earnings of the company to determine the enterprise value  <b>Earnings</b> Reported earnings adjusted for non-recurring items, such as restructuring expenses, for significant corporate actions and, in exceptional cases, run-rate adjustments to arrive at maintainable earnings  Most common measure is earnings before interest, tax, depreciation and amortisation ("EBITDA")  Earnings used are usually the management accounts for the 12 months to the quarter end preceding the reporting period, unless data from forecasts or the latest audited accounts provides a more reliable picture of maintainable earnings  <b>Earnings multiples</b> The earnings multiple is derived from comparable listed companies or relevant market transaction multiples  We select companies in the same industry and, where possible, with a similar business model and profile in terms of size, products, services and customers, growth rates and geographic focus  We adjust for relative performance in the set of comparables, exit expectations and other company specific factors	A liquidity discount is applied to the enterprise value, typically between 5% and 15%, using factors such as our alignment with management and other investors and our investment rights in the deal structure	<b>59%</b>
<b>Quoted (Infrastructure/Private Equity)</b>	Used for investments in listed companies	Closing bid price at balance sheet date	No adjustments or discounts applied	<b>20%</b>
<b>Imminent sale (Infrastructure/Private Equity)</b>	Used where an asset is in a sales process, a price has been agreed but the transaction has not yet settled	Contracted proceeds for the transaction, or best estimate of the expected proceeds	A discount of typically 2.5% is applied to reflect any uncertain adjustments to expected proceeds	<b>3%</b>
<b>Fund (Infrastructure/Private Equity/Debt Management)</b>	Used for investments in unlisted funds	Net asset value reported by the fund manager	Typically no further discount applied in addition to that applied by the fund manager	<b>0%</b>
<b>Specific industry metrics (Private Equity)</b>	Used for investments in industries which have well defined metrics as bases for valuation – eg book value for insurance underwriters, or regulated asset bases for utilities	We create a set of comparable listed companies and derive the implied values of the relevant metric We track and adjust this metric for relative performance, as in the case of earnings multiples Comparable companies are selected using the same criteria as described for the earnings methodology	An appropriate discount is applied, depending on the valuation metric used	<b>3%</b>
<b>Discounted cash flow (Private Equity/Infrastructure)</b>	Appropriate for businesses with long-term stable cash flows, typically in infrastructure	Long-term cash flows are discounted at a rate which is benchmarked against market data, where possible, or adjusted from the rate at the initial investment based on changes in the risk profile of the investment	Discount already implicit in the discount rate applied to long-term cash flows – no further discounts applied	<b>9%</b>
<b>Broker quotes (Debt Management)</b>	Used to value traded debt instruments	Broker quotes obtained from banks which trade the specific instruments concerned, benchmarked to a range of other data such as DCF, trade data and other quotes	No discount is applied	<b>5%</b>
<b>Other (Private Equity)</b>	Used where elements of a business are valued on different bases	Values of separate elements prepared on one of the methodologies listed above	Discounts applied to separate elements as above	<b>1%</b>

For a small proportion of our smaller investments (less than 1% of the portfolio value), the valuation is determined by a more mechanical approach using information from the latest audited accounts. Equity shares are valued at the higher of an earnings or net assets methodology. Fixed income shares and loan investments are measured using amortised cost and any implied impairment, in line with IFRS.

Consistent with IPEV guidelines, all equity investments are held at fair value using the most appropriate methodology and no investments are held at historical cost.

# Directors' remuneration policy

This is an extract from the 2014 Annual report and sets out the Directors' remuneration policy ("the Policy") approved at the 2014 Annual General Meeting held on 17 July 2014 and is effective from that date for all payments made to directors.

The Policy is reproduced here for ease of reference only.

## POLICY REPORT

### Remuneration policy table

The table below summarises the policy in respect of each element of the Company's remuneration for Executive and non-executive Directors effective from the date of the 2014 Annual General Meeting. This policy was approved by shareholders at the 2014 Annual General Meeting in accordance with section 439A of the Companies Act 2006.

This policy remains unchanged. While the Committee will consider the appropriateness of the Remuneration policy annually to ensure it continues to align with the business strategy, there is no current intention to revise the policy more often than every three years, unless required to through changes to regulations or legislation.

### Executive Directors

Purpose and link to strategic objectives	Operation	Opportunity	Performance metrics
<b>Base salary</b> <ul style="list-style-type: none"> <li>■ To provide a fixed element of pay at a level that aids the recruitment, retention and motivation of high performing people.</li> <li>■ To reflect their role, experience and importance to the business.</li> </ul>	<ul style="list-style-type: none"> <li>■ Salaries are normally reviewed annually by the Committee, with any changes usually becoming effective from 1 July.</li> <li>■ These are reviewed by taking into account a number of factors, including:               <ul style="list-style-type: none"> <li>– performance of the Company and individual;</li> <li>– wider market and economic conditions;</li> <li>– any changes in responsibilities; and</li> <li>– the level of increases made across the Company.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>■ Whilst there is no maximum salary level, increases are generally considered in the context of those awarded to other employees and the wider market.</li> <li>■ Higher increases may be awarded in exceptional circumstances. For example, this may include a change in size, scope or responsibility of role, or development within the role or a specific retention issue.</li> <li>■ The annual base salary for each Executive Director is set out in the Annual report on Remuneration for the year.</li> </ul>	<ul style="list-style-type: none"> <li>■ None, although the Committee considers when setting salary levels the breadth and responsibilities of the role as well as the competence and experience of the individual.</li> </ul>
<b>Pension</b> <ul style="list-style-type: none"> <li>■ To provide contributions to Executive Directors to enable them to make long-term savings to provide post-retirement income.</li> <li>■ Pension contributions are provided to both support retention and recruit people of the necessary calibre.</li> </ul>	<ul style="list-style-type: none"> <li>■ Participation in the defined contribution pension scheme (3i Retirement Plan) or cash equivalent.</li> <li>■ Prior to 2011 Executive Directors were eligible for membership of the 3i Group Pension Plan, a defined benefit contributory scheme. Pension accrual ceased for all members with effect from 5 April 2011, although a link to final salary is maintained for existing accrual up to the date of leaving the Company.</li> <li>■ For the period from 5 April 2011 until 5 April 2015, defined benefit members receive additional contributions into their defined contribution pension scheme as transitional relief for members whose pension accrual ceased on 5 April 2011.</li> </ul>	<ul style="list-style-type: none"> <li>■ Executive Directors receive a pension contribution or cash allowance of 12% of pensionable salary.</li> <li>■ In addition if an Executive Director is a member of the 3i Group Pension Plan they are eligible to receive a maximum additional contribution of 5% of the first £50,000 of pensionable salary in the year to April 2015 only.</li> <li>■ For those Executive Directors who were members of the 3i Group Pension Plan, their deferred pension will change to reflect the deferred pension available on leaving, payable from age 60.</li> <li>■ Details for the current Executive Directors are set out in the Annual report of remuneration for the year.</li> </ul>	<ul style="list-style-type: none"> <li>■ N/A</li> </ul>

Purpose and link to strategic objectives	Operation	Opportunity	Performance metrics
<b>Benefits</b> <ul style="list-style-type: none"> <li>■ To provide market competitive benefits at the level needed to attract and retain high performing people.</li> <li>■ To provide health benefits to support the well being of employees.</li> </ul>	<ul style="list-style-type: none"> <li>■ Executive Directors are entitled to a combination of benefits, including a non-pensionable car allowance, private medical insurance, an annual health assessment and life assurance.</li> <li>■ The Remuneration Committee may remove benefits that Executive Directors receive or introduce other benefits if it is appropriate to do so.</li> <li>■ Executive Directors are also eligible to participate in any tax-approved all employee share plans operated by the Company on the same basis as other eligible employees.</li> </ul>	<ul style="list-style-type: none"> <li>■ Whilst there is no maximum level of benefits, they are generally set at an appropriate market competitive level, taking into account a number of factors including market practice for comparable roles within appropriate pay comparators.</li> <li>■ The Remuneration Committee may review the benefits for an existing or new Executive Director at any point.</li> </ul>	<ul style="list-style-type: none"> <li>■ N/A</li> </ul>
<b>Annual bonus</b> <ul style="list-style-type: none"> <li>■ To incentivise the achievement of the Group's strategic objectives on an annual basis.</li> <li>■ Deferral into shares reinforces retention and enhances alignment with shareholders by encouraging longer- term focus and risk alignment.</li> </ul>	<ul style="list-style-type: none"> <li>■ Bonus awards are considered annually based on performance in the relevant financial year.</li> <li>■ All performance targets are reviewed and set by the Committee early in the year.</li> <li>■ Awards are determined by the Committee after the year based upon the actual performance against these targets.</li> <li>■ No more than 50% of any bonus award is paid as cash.</li> <li>■ At least 50% of any bonus award will be deferred into shares vesting in equal instalments over four years.</li> <li>■ Deferred bonus awards may be granted in the form of conditional share awards, options or forfeitable shares. Awards may also be settled in cash.</li> <li>■ Participants receive the value of dividends in cash on the shares which are subject to the award.</li> <li>■ Deferred share awards are subject to the malus/clawback policy.</li> </ul>	<ul style="list-style-type: none"> <li>■ Maximum bonus of 400% of salary for the Chief Executive.</li> <li>■ Maximum bonus of 250% of salary for the Group Finance Director.</li> <li>■ A bonus of above 75% of the maximum opportunity is only awarded for exceptional performance.</li> </ul>	<ul style="list-style-type: none"> <li>■ Performance is assessed against a balanced scorecard which aligns with the strategic objectives of the Group.</li> <li>■ The targets can be a range of financial, business line specific, personal, risk and other key Group targets.</li> <li>■ The Committee uses the scorecard as a prompt and guide to judgment and considers the performance outcomes in the wider context of personal performance (including values and behaviours), risk, market and other factors.</li> <li>■ Details of the annual performance targets (and performance against targets) are shown within the Annual report of remuneration.</li> </ul>



## Directors' remuneration policy continued

Purpose and link to strategic objectives	Operation	Opportunity	Performance metrics
<b>Long-term Incentive Plan</b> <ul style="list-style-type: none"> <li>■ Alignment of reward with long-term, sustainable Company performance and the creation of shareholder value over the longer-term.</li> <li>■ The combination of strategic performance measures and total shareholder return targets balance internal and external perspectives of performance, and align participants with shareholders' interests.</li> </ul>	<ul style="list-style-type: none"> <li>■ All performance targets, along with relative weightings, are reviewed and set by the Committee prior to awards being made.</li> <li>■ The Committee may make an award in the form of forfeitable shares, conditional share awards, stock appreciation rights, or options under the plan. Awards may be settled in cash.</li> <li>■ Award levels are determined by reference to individual performance prior to grant.</li> <li>■ Awards vest subject to the Group's achievements against the performance targets over a fixed three year period.</li> <li>■ To the extent that shares vest, they are released 50% on or around (but not earlier than) the third anniversary of grant, and 25% on or around (but not earlier than) the fourth and fifth anniversaries of grant.</li> <li>■ The Committee may determine that participants may receive the value of dividends in cash or shares which would have been paid on the shares that vest under awards.</li> <li>■ Performance share awards are subject to the malus/clawback policy (as set out in the notes opposite).</li> </ul>	<ul style="list-style-type: none"> <li>■ Awards granted in respect of a financial year will have a face value of up to 400% of salary for the Chief Executive.</li> <li>■ Awards granted in respect of a financial year will have a face value of up to 250% of salary for the Group Finance Director.</li> <li>■ Normally, no payment will be made for below threshold performance. Between 20% and 25% of the award vests at threshold performance, depending upon the performance condition.</li> </ul>	<ul style="list-style-type: none"> <li>■ The scorecard used to measure the performance links at least half of the award to total shareholder returns and the balance, if any, to strategic objectives set by the Board.</li> <li>■ The achievement against these targets is measured over a three-year period and is determined by the Committee.</li> <li>■ The Committee can reduce any award which would otherwise vest if gross debt or gearing targets are missed.</li> <li>■ Details of the current performance conditions are shown within the Annual report of remuneration.</li> </ul>
<b>Shareholding requirements</b> <ul style="list-style-type: none"> <li>■ To create alignment with shareholders by encouraging longer-term focus.</li> </ul>	<ul style="list-style-type: none"> <li>■ Executive Directors are required to build up over a reasonable period of time, and thereafter maintain, a shareholding in the Company's shares. Vested shares (net of income tax and National Insurance contributions) under the Deferred Bonus Plan and Long-term Incentive Plan should be retained until the shareholding requirement is met.</li> <li>■ In addition, shareholding targets exist for other members of the Executive Committee and for staff designated as "partners" in the Group's businesses.</li> <li>■ The Committee retains the ability to introduce additional retention conditions.</li> </ul>	<ul style="list-style-type: none"> <li>■ The shareholding targets for the Executive Directors are: <ul style="list-style-type: none"> <li>– Chief Executive – 3.0 times salary</li> <li>– Group Finance Director – 1.5 times salary</li> </ul> </li> <li>■ Executive Committee members have a target of 1.5 times salary and selected "partners" 1.0 times salary.</li> </ul>	<ul style="list-style-type: none"> <li>■ N/A</li> </ul>

## Notes to the Remuneration policy table

### Performance conditions

The Committee selected the performance conditions used for determining the annual bonus and LTIP awards as they align directly with the short and long-term strategy of the business. These conditions are set annually by the Committee at levels that take into account the Board's business plan.

### Changes to the policy operated in FY2014

There have been no changes to the remuneration policy from that which was applied during the year, other than an increase in the proportion of the annual bonus that is deferred over four years from 40% to 50%. This has been increased to align the Executive Directors' interests more closely with those of shareholders.

### Consistency with policy for all employees

All employees are eligible to receive salary, pension contributions and benefits and to be considered for a discretionary annual bonus, with the maximum opportunities reflecting the role and seniority of each employee. Other members of the Executive Committee are subject to the same bonus deferral arrangements as the Executive Directors. Higher-earning members of staff below Executive Committee have a portion of their bonus deferred into shares vesting in equal instalments over a three-year period.

Within each of the Group's businesses, senior members of staff have a significant part of their compensation linked to the long-term performance of the Group's and its clients' investments through carried interest schemes or similar arrangements.

### Co-investment and carried interest plans

Executive Directors, other than the Chief Executive and Group Finance Director, are permitted to participate in carried interest plans and similar arrangements. This was approved by shareholders on 4 July 2001 and 6 July 2011 when approving the Group's Long-term Incentive Plan. No current Executive Director benefits from these arrangements.

### Malus/Clawback policy

The Committee has agreed a policy, which applies to long-term incentive awards and deferred bonus share awards made during the year to Executive Directors (and certain other Senior Executives), under which awards may be forfeited or reduced prior to vesting in exceptional circumstances on such basis as the Committee considers fair, reasonable and proportionate. This would include material misstatement of Group financial statements, or cases where an individual is deemed to have caused a material loss for the Group as a result of reckless, negligent or wilful actions or inappropriate values or behaviour.

The Committee may make minor changes to this policy, which do not have a material advantage to Directors, to aid in its operation or implementation without seeking shareholder approval for a revised version of this Policy report.

## Non-executive Directors

Purpose and link to strategy	Operation	Opportunity
<b>Non-executive Directors – Fees</b> <ul style="list-style-type: none"> <li>To attract and retain high performing non-executive Directors of the calibre required.</li> </ul>	<ul style="list-style-type: none"> <li>Non-executive Directors receive a basic annual fee.</li> <li>The fee is delivered in a mix of cash and shares.</li> <li>The Chairman's fee is reviewed annually by the Committee.</li> <li>Fees are benchmarked against other companies of comparable size and against listed financial services companies.</li> <li>The Board is responsible for determining all other non-executive Director fees, which are reviewed annually to ensure they remain appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>Fees are set at a level which is considered appropriate to attract and retain the calibre of individual required by the Company but the Company avoids paying more than necessary for this purpose.</li> <li>Additional fees are paid for the following roles/duties: <ul style="list-style-type: none"> <li>Senior Independent Director</li> <li>Committee Chairman</li> <li>Committee membership</li> </ul> </li> <li>Committee fees are payable in respect of the Audit and Compliance Committee, Remuneration Committee and Valuations Committee.</li> </ul>

## Directors' remuneration policy continued

### RECRUITMENT POLICY

In determining remuneration arrangements for new executive appointments to the Board (including internal promotions), the Committee will take into consideration all relevant factors, including the calibre of the individual, the nature of the role, local market practice, the individual's current remuneration package, 3i remuneration policy, internal relativities and existing arrangements for other Executive Directors. For external appointments, some variation may be necessary in order to attract the successful candidate and to reflect particular skills or experience specifically required.

The maximum level of variable pay (as expressed as a multiple of base salary) which may be awarded to new Executive Directors in respect of their appointment shall be no more generous than the combined maximum limits expressed in the Remuneration policy table above in respect of the Chief Executive, with an appropriate mix between annual bonus and LTIP opportunity, excluding any awards made to compensate the Executive Director for awards forfeited by their previous employer.

It may be necessary to compensate the new Executive Director for variable pay being forfeited from their current employer.

The Committee's intention is that any such award would be no more generous than the awards being forfeited and would be determined on a comparable basis at the time of grant, including the pay out schedule and performance conditions, where appropriate.

In determining whether it is appropriate to use such judgment, the Committee will ensure that any awards made are in the best interests of both the Company and its shareholders. The Committee is at all times conscious of the need to pay no more than is necessary, particularly when determining buy-out arrangements.

For an internal appointment of a new Executive Director, any existing awards made prior to becoming a Director would be allowed to vest and pay out in accordance with the existing plan rules.

In the event of the appointment of a new non-executive Director, remuneration arrangements will normally be in line with those detailed in the relevant table above.

### SERVICE CONTRACTS

The main terms of the service contracts of the Executive Directors who served in the year were as follows:

Provision	Policy
<b>Notice period</b>	<ul style="list-style-type: none"> <li>■ 12 months' notice if given by the Company</li> <li>■ 6 months' notice if given by the Executive Director</li> <li>■ Company policy is that Executive Directors' notice periods should not normally exceed one year. Save for these notice periods the contracts have no unexpired terms.</li> </ul>
<b>Dates of contracts</b>	<ul style="list-style-type: none"> <li>■ Mr S A Borrows – 17 May 2012</li> <li>■ Mrs J S Wilson – 1 October 2008</li> </ul>
<b>Termination payments</b>	<ul style="list-style-type: none"> <li>■ Mr Borrows' contract entitles the Company to terminate employment without notice subject to making 12 monthly payments thereafter equivalent to monthly basic pay and benefits less any amounts earned from alternative employment.</li> <li>■ All Directors' contracts entitle the Company to give pay in lieu of notice.</li> </ul>
<b>Remuneration and benefits</b>	<ul style="list-style-type: none"> <li>■ The operation of all incentive plans, including being eligible to be considered for an annual bonus and Long-term Incentive Plan awards, is non-contractual.</li> <li>■ On termination of employment outstanding awards will be treated in accordance with the relevant plan rules.</li> </ul>

The Chairman and the non-executive Directors do not have service contracts or contracts for services. Their appointment letters provide for no entitlement to compensation or other benefits on ceasing to be a Director. Service contracts are available for inspection at the Company's headquarters in business hours.

## PAYMENT FOR LOSS OF OFFICE

As outlined above, the Committee must satisfy any contractual obligations agreed with the Executive Directors. Details of the Directors' notice periods are shown alongside the service contract information.

An Executive Director may be eligible to receive a time pro-rated annual bonus in respect of the year up until he or she ceased employment. In determining whether to award any bonus, the Committee will assess performance during the financial year up to the date of cessation of active involvement in their management role.

The treatment of outstanding share awards is governed by the relevant share plan rules. The following table and the note below it summarise the leaver categories and the impact on the share awards which employees (including Executive Directors) may hold.

For the avoidance of doubt, the Committee reserves the right to make any remuneration payments and payments for loss of office notwithstanding that they are not in line with the policy set out above, where the terms of that payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes "payments" includes the Committee satisfying awards of variable remuneration and, in relation to an award or option over shares, the terms of the payment are "agreed" at the time the award is granted.

Plan	Good leaver categories	Good leaver treatment <sup>1</sup>	Bad leaver treatment <sup>1</sup>
<b>Deferred share awards</b>	<ul style="list-style-type: none"> <li>■ Death</li> <li>■ Retirement</li> <li>■ Ill-health, injury, disability</li> <li>■ Redundancy</li> <li>■ Employing company/business ceasing to be part of 3i Group</li> <li>■ "Scheduled Departure" (ie a participant leaving on such a basis and/or within a specified timeframe as agreed by the Committee)</li> </ul>	<p>Awards vest in full on the normal vesting date</p> <p>On death, awards vest in full immediately</p>	<p>Unvested awards lapse in full</p> <p>Vested awards structured as options may be exercised for three months following the participant's cessation of employment</p>
<b>Long-term Incentive Plan</b>	<ul style="list-style-type: none"> <li>■ Death</li> <li>■ Retirement</li> <li>■ Ill-health, injury, disability</li> <li>■ Redundancy</li> <li>■ Employing company/business ceasing to be part of 3i Group</li> <li>■ "Scheduled Departure" (ie a participant leaving on such a basis and/or within a specified timeframe as agreed by the Committee)</li> </ul>	<p>Awards normally vest on the normal vesting date subject to performance. Scaling back for time will normally apply</p> <p>If a participant dies, the Committee will determine the extent to which awards should vest as soon as practicable following the participant's death</p>	<p>Awards lapse in full</p> <p>If the Committee decides the awards should vest after the participant's cessation of employment, awards will vest subject to performance and it may scale back awards or impose additional conditions</p>

<sup>1</sup> The treatments set out in the table above apply to all employees and are expected to operate in the vast majority of cases. The Plan rules retain discretion for the Committee to reduce awards in exceptional circumstances to Good Leavers or permit vesting (in whole or in part) of awards which would otherwise lapse to Bad Leavers. The Committee will report on the use of this discretion if it is exercised in relation to any Executive Director.

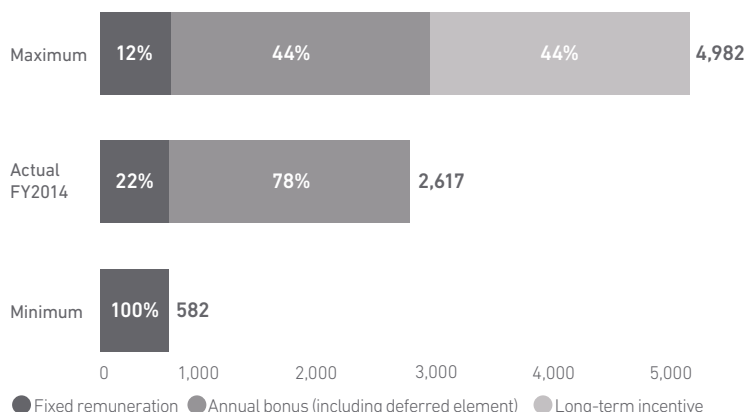
## Directors' remuneration policy continued

### CHANGE OF CONTROL

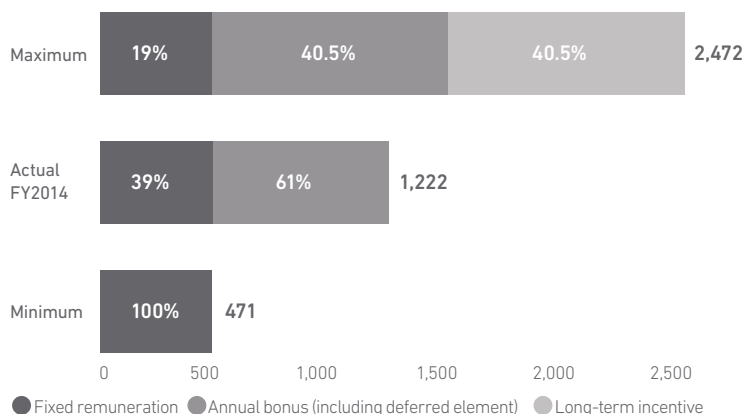
If there is a takeover or winding up of the Company, awards will vest to the extent determined by the Committee.

### SCENARIOS

#### Chief Executive (£000s)



#### Finance Director (£000s)



The assumptions made in preparing these graphs are that:

- Minimum – this includes only the fixed elements of pay, being base salary, benefits and pension;
- Actual – this represents the remuneration received by each Executive Director for their performance in the year;
- Maximum – this is calculated as the fixed elements and the maximum Annual Bonus and Long-term Incentive Plan awards; and
- Remuneration arising as a result of share price movements or rights to dividends and other distributions have been excluded.

### CONSIDERATION OF WIDER EMPLOYEE PAY

As part of the annual Committee agenda, the Committee reviews the overall pay and bonus decisions in aggregate for the Group. This ensures that the pay and conditions in the wider Group are taken into account when determining directors' pay. In particular:

- Salary increases awarded over time to other employees are taken into account when considering salary increases for the Executive Directors; and
- The bonus awards made to Directors are considered and made in the context of discretionary bonus awards made within the business. These are based upon Company performance, and are closely correlated to the Executive Director bonus awards.

The Company does not consult with employees when preparing the Executive Director remuneration policy. However, a number of our employees are shareholders and so are able to express their views in the same way as other shareholders.

### CONSIDERATION OF SHAREHOLDER VIEWS

As part of the shareholder consultation process during 2012/13, the Company proposed moving the payment date for awards under the Long-term Incentive Plan to three years and six months following the date of award. The Committee received and considered feedback from shareholders on this point, and decided to retain the existing framework under which the awards have a performance period of three years and then are released in tranches on the third, fourth and fifth anniversary of the date of grant.

The Committee will continue to be mindful of shareholder views when evaluating and setting ongoing remuneration strategy, and commits to consulting with shareholders prior to any significant changes to remuneration policy.

# Information for shareholders

## FINANCIAL CALENDAR

Ex-dividend date	Thursday 18 June 2015
Record date	Friday 19 June 2015
Annual General Meeting*	Thursday 25 June 2015
Final dividend to be paid	Friday 24 July 2015
Half year results (available online only)	November 2015
Interim dividend expected to be paid	January 2016

\* The 2015 Annual General Meeting will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE on 25 June 2015 at 11.00am. For further details please see the Notice of Annual General Meeting 2015.

## INFORMATION ON ORDINARY SHARES

Shareholder profile: Location of investors at 31 March 2015

UK	72.0%
North America	16.0%
Continental Europe	8.0%
Other international	4.0%

## SHARE PRICE

Share price at 31 March 2015	482.4p
High during the year (23 March 2015)	505.0p
Low during the year (15 October 2014)	352.1p

## DIVIDENDS PAID IN THE YEAR TO 31 MARCH 2015

FY2014 Final dividend, paid 25 July 2014	13.3p
FY2015 Interim dividend, paid 7 January 2015	6.0p

## BALANCE ANALYSIS SUMMARY

	Number of holdings individuals	Number of holdings Corporate Bodies	Balance as at 31 March 2015	%
1–1,000	13,758	541	6,478,401	0.67
1,001–10,000	5,721	990	15,715,721	1.62
10,001–100,000	168	393	19,114,835	1.97
100,001–1,000,000	17	300	113,068,619	11.63
1,000,001–10,000,000	0	111	299,829,264	30.83
10,000,001–highest	0	22	518,246,979	53.29
<b>Total</b>	<b>19,664</b>	<b>2,357</b>	<b>972,453,819</b>	<b>100.00</b>

The table above provides details of the number of shareholdings within each of the bands stated in the register of members at 31 March 2015.

## Information for shareholders continued

**BOILER ROOM AND OTHER SCAMS**

In the past, some of our shareholders have received unsolicited telephone calls or correspondence concerning investment matters from organisations or persons claiming or implying that they have some connection with the Company. These are typically from overseas based “brokers” who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in UK or overseas investments. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free reports into the Company. These approaches are operated out of what is more commonly known as a “boiler room”. You may also be approached by brokers offering to purchase your shares for an upfront payment in the form of a broker fee, tax payment or de-restriction fee. This is a common secondary scam operated by the boiler rooms.

If you receive any unsolicited investment advice:

- Always ensure the firm is on the Financial Conduct Authority (“FCA”) Register and is allowed to give financial advice before handing over your money. You can check at [www.fca.org.uk/register](http://www.fca.org.uk/register);
- Double-check the caller is from the firm they say they are – ask for their name and telephone number and say you will call them back. Check their identity by calling the firm using the contact number listed on the FCA Register. This is important as there have been instances where an authorised firm’s website has been cloned but with a few subtle changes, such as a different phone number or false email address;
- Check the FCA’s list of known unauthorised overseas firms. However, these firms change their name regularly, so even if a firm is not listed it does not mean they are legitimate. Always check that they are listed on the FCA Register; and
- If you have any doubts, call the Financial Conduct Authority Consumer Helpline on 0800 111 6768. If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme.

**ANNUAL REPORTS AND HALF YEARLY REPORTS ONLINE**

If you would prefer to receive shareholder communications electronically in future, including annual reports and notices of meetings, please visit our Registrars’ website at [www.shareview.co.uk/clients/3isignup](http://www.shareview.co.uk/clients/3isignup) and follow the instructions there to register.

The 2015 half yearly report will be available online only. Please register to ensure you are notified when it becomes available at [www.3i.com/investor-relations/financial-news](http://www.3i.com/investor-relations/financial-news).

More general information on electronic communications is available on our website at [www.3i.com/investor-relations/shareholder-information](http://www.3i.com/investor-relations/shareholder-information).

**INVESTOR RELATIONS AND GENERAL ENQUIRIES**

For all investor relations and general enquiries about 3i Group plc, including requests for further copies of the Report and accounts, please contact:

Investor relations  
3i Group plc  
16 Palace Street  
London SW1E 5JD

Telephone +44 (0)20 7975 3131

email [IRTeam@3i.com](mailto:IRTeam@3i.com)

or visit the Investor relations section of our website at [www.3i.com/investor-relations](http://www.3i.com/investor-relations), for full up-to-date investor relations information, including the latest share price, results presentations and financial news.

**REGISTRARS**

For shareholder administration enquiries, including changes of address please contact:

Equiniti  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA

Telephone 0871 384 2031

Calls to this number cost 8p per minute, plus network extras. Lines are open from 8.30am to 5.30pm, Monday to Friday (international callers +44 121 415 7183).



# Glossary

**Alternative Investment Funds (“AIFs”)** At 31 March 2015, 3i Investments plc as AIFM, managed four AIFs. These were 3i Group plc, 3i Growth Capital Fund, 3i Eurofund V and the European Middle Market Loan Fund.

**Alternative Investment Fund Managers Directive (“AIFMD”)** became effective from July 2013. As a result, at 31 March 2015, 3i Investments plc is registered as an Alternative Investment Fund Manager (“AIFM”), which in turn manages four AIFs.

**Alternative Investment Fund Manager (“AIFM”)** is the regulated manager of AIFs. Within 3i, this is 3i Investments plc.

**Assets under management (“AUM”)** A measure of the total assets that 3i has to invest or manages on behalf of shareholders and third-party investors for which it receives a fee.

**Barclays Infrastructure Fund Management business (“BIFM”)** Acquired by 3i in November 2013 when it managed two active unlisted funds that invest in UK and European PPP and energy projects, with assets under management of over £700 million.

**Board** The Board of Directors of the Company.

**Capital redemption reserve** is established in respect of the redemption of the Company's ordinary shares.

**Capital reserve** The capital reserve recognises all profits that are capital in nature or have been allocated to capital. Following changes to the Companies Act the Company amended its Articles of Association at the 2012 Annual General Meeting to allow these profits to be distributable by way of a dividend.

**Carried interest** is accrued on the realised and unrealised profits generated taking relevant performance hurdles into consideration, assuming all investments were realised at the prevailing book value. Carry is only actually paid or received when the relevant performance hurdles are met, and the accrual is discounted to reflect expected payment periods.

Carry receivable is generated on third-party capital over the life of the relevant fund when relevant performance criteria are met.

We pay carry to our investment teams on proprietary capital invested and share a proportion of carry receivable from third-party funds. This total carry payable is provided through schemes which have been structured historically over two year vintages to maximise flexibility in resource planning.

**Collateralised Loan Obligation (“CLO”)** A form of securitisation where payments from multiple loans are pooled together and passed on to different classes of owners in various tranches.

**Company** 3i Group plc.

**Discounting** The reduction in present value at a given date of a future cash transaction at an assumed rate, using a discount factor reflecting the time value of money.

**Dividend income** from equity investments and CLO capital is recognised in the Statement of comprehensive income when the shareholders' rights to receive payment have been established.

**Earnings before interest, tax, depreciation and amortisation (“EBITDA”)** EBITDA is defined as earnings before interest, taxation, depreciation and amortisation and is used as the typical measure of portfolio company performance.

**EBITDA multiple** Calculated as the enterprise value over EBITDA, it is used to determine the value of a company.

**Executive Committee** The Executive Committee is responsible for the day-to-day running of the Group and comprises: the Chief Executive, Group Finance Director, the Managing Partners of the Private Equity, Infrastructure and Debt Management businesses and the Group's General Counsel.

**Fair value movements on investment entity subsidiaries** The movement in the carrying value of Group subsidiaries, classified as investment entities under IFRS 10, between the start and end of the accounting period converted into sterling using the exchange rates at the date of the movement.

**Fair value through profit or loss (“FVTPL”)** FVTPL is an IFRS measurement basis permitted for assets and liabilities which meet certain criteria. Gains and losses on assets and liabilities measured as FVTPL are recognised directly in the income statement.

**Fee income** is earned directly from investee companies when an investment is first made and through the life of the investment. Fees that are earned on a financing arrangement are considered to relate to a financial asset measured at fair value through profit or loss and are recognised when that investment is made. Fees that are earned on the basis of providing an ongoing service to the investee company are recognised as that service is provided.

**Fees receivable from external funds** are fees received by the Group, from third parties, for the management of private equity, infrastructure and debt management funds.

**Foreign exchange on investments** arises on investments made in currencies that are different from the functional currency of the Group entity. Investments are translated at the exchange rate ruling at the date of the transaction. At each subsequent reporting date investments are translated to sterling at the exchange rate ruling at that date.

**Fund Management** A segment of the business focused on generating profits from the management of private equity, infrastructure and debt management funds.

**Fund Management Operating profit** comprises fee income from third parties as well as a synthetic fee received from the Proprietary Capital business, less operating expenses incurred by the Fund Management business.

**Gross investment return (“GIR”)** GIR includes profit and loss on realisations, increases and decreases in the value of the investments we hold at the end of a period, any income received from the investments such as interest, dividends and fee income and foreign exchange movements. GIR is measured as a percentage of the opening portfolio value and is the principal tool for assessing our Proprietary Capital business.

**Income from loans and receivables** is recognised as it accrues. When the fair value of an investment is assessed to be below the principal value of a loan the Group recognises a provision against any interest accrued from the date of the assessment going forward until the investment is assessed to have recovered in value.

## Glossary continued

**International Financial Reporting Standards (“IFRS”)** IFRS are accounting standards issued by the International Accounting Standards Board (“IASB”). The Group’s consolidated financial statements are required to be prepared in accordance with IFRS.

**Investment basis** Accounts prepared assuming that IFRS 10 had not been introduced. Under this basis, we fair value portfolio companies at the level we believe provides the most comprehensive financial information.

The commentary in the Strategic Report refers to this basis as we believe it provides a more understandable view of our performance.

**Key Performance Indicators (“KPI”)** This is a measure by reference to which the development, performance or position of the Group can be measured effectively.

**Money multiple** Calculated as the cumulative distributions plus any residual value divided by paid-in capital.

**Net asset value (“NAV”)** NAV is a measure of the fair value of our proprietary investments and the net costs of operating the business.

**Operating cash profit** Defined as the difference between our cash income (cash fees from managing third-party funds and cash income from our proprietary capital portfolio) and our operating expenses, excluding restructuring costs.

**Operating profit** Includes gross investment return, management fee income generated from managing external funds, the costs of running our business, net interest payable, movements in the fair value of derivatives, other losses and carried interest.

**Portfolio income** is that which is directly related to the return from individual investments. It is recognised to the extent that it is probable that there will be economic benefit and the income can be reliably measured. It is comprised of dividend income, income from loans and receivables and fee income.

**Proprietary Capital** A segment of the business focused on generating profits from shareholders capital which is available to invest.

**Proprietary Capital operating profit** The profit comprises gross investment return, operating expenses, a fee paid to the Fund Management business and balance sheet funding expenses such as interest payable.

**Public Private Partnership (“PPP”)** A PPP is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies.

**Realised profits or losses over value on the disposal of investments**

The difference between the fair value of the consideration received less any directly attributable costs, on the sale of equity and the repayment of loans and receivables, and its carrying value at the start of the accounting period, converted into sterling using the exchange rates at the date of disposal.

**Revenue reserve** recognises all profits that are revenue in nature or have been allocated to revenue.

**Segmental reporting** Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive who is considered to be the Group’s chief operating decision maker. All transactions between business segments are conducted on an arm’s length basis, with intra-segment revenue and costs being eliminated on consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

**Share-based payment reserve** is a reserve to recognise those amounts in retained earnings in respect of share-based payments.

**Synthetic fee** Internal fee payable to the Fund Management business for managing our proprietary capital.

**Total return** Comprises operating profit less tax charge less movement in actuarial valuation of the historic defined benefit pension scheme.

**Total shareholder return (“TSR”)** This is the measure of the overall return to shareholders and includes the movement in the share price and any dividends paid, assuming that all dividends are reinvested on their ex-dividend date.

**Translation reserve** comprises all exchange differences arising from the translation of the financial statements of international operations.

**Underlying fund management profit** Calculated as fee income minus operating expenses related to Fund Management activities, excluding restructuring and amortisation costs.

**Unrealised profits or losses on the revaluation of investments** The movement in the carrying value of investments between the start and end of the accounting period converted into sterling using the exchange rates at the date of the movement.

**Value weighted earnings growth** The growth in last 12 month earnings, when comparing to the preceding 12 months. This measure is the key driver of our private equity portfolio performance.

### 3i Group plc

Registered office:  
16 Palace Street  
London SW1E 5JD  
UK

Registered in England No. 1142830

An investment company as defined  
by section 833 of the Companies Act 2006

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## **3i Group plc**

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### **Register online**

To receive shareholder communications electronically, including annual reports and notices of meetings, please register at:

**[www.3i.com/investor-relations/shareholder-information](http://www.3i.com/investor-relations/shareholder-information)**

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